8. UNDERWRITING FEDERAL CREDIT AND INSURANCE

Federal programs offer direct loans and/or loan guarantees for housing, education, business, and exports. At the end of FY 1998, there were $217 billion in Federal direct loans outstanding and $882 billion in loan guarantees. In addition, net lending by Government-sponsored enterprises totaled $2.0 trillion. The Federal Government also insures bank, thrift, and credit union deposits up to $100,000, guarantees vested define-benefit pensions, and insures against disasters, specified international investment risks, and various other risks. These diverse programs are operating in the context of rapidly evolving private financial markets that are making some of their functions less necessary while generating both new risks and new opportunities. Thus, program managers are continually reassessing their roles and seeking to improve their effectiveness in dynamic financial markets.

The introduction to this chapter summarizes key changes in financial markets and their effects on Federal programs.

- Its first section is a crosscutting assessment of the rationale for a continued Federal role in providing credit and insurance, performance measures for credit programs, and criteria for re-engineering credit programs so as to enhance their benefits in relation to costs.
- The second section reviews Federal credit programs and GSEs in four sectors: housing, education, business and community development, and exports, noting the rationale and goals of these programs. It highlights a housing consortium recently created to help program managers integrate with evolving private sector practices, and efforts to improve the effectiveness of student, business, and international credit programs.
- The final section assesses recent developments in Federal deposit insurance, pension guarantees, and disaster insurance.

Evolving Financial Markets

Financial markets have been evolving rapidly in recent years. Both intermediaries—banks and the many non-bank firms engaged in financial services—and capital markets have been reaching out to new clients that they did not serve a few years ago. Competition for business within and across industry lines has become more intense as legal and regulatory restrictions segmenting financial markets have eased. Massive databanks and increasingly sophisticated analytical methods are being used to find creditworthy borrowers among people and businesses previously thought ineligible for private credit.

Moreover, funds are flowing more readily to their most productive uses across the country and around the world. Interstate banking and branching are almost nationwide, and growing numbers of large financial institutions serve global markets. Capital market financing is available to smaller companies and for a broader range of purposes than before. Secondary markets are the main source of financing for mortgages, and a rapidly growing source of financing for household durables, consumer credit, and small business loans. Nonbanks and nonfinancial firms are helping to funnel funds from capital markets to small clients in cities and in rural areas.

Faster and cheaper information and communications systems have revolutionized "back office" functions. These can be consolidated to achieve economies of scale and located anywhere in the world where capable help is available and economical. From these locations, communications can bring the "back office" to the front line on a computer terminal in the office of any realtor or supplier or in any storefront or kiosk. From a timely information base, credit servicing and workout have become much more efficient.

While the increased globalization of financial institutions and capital markets provides extensive benefits, it also makes domestic market conditions more sensitive to events abroad. In 1998, the continued Asian crisis and further events in Russia and Brazil resulted in a flight to liquidity and safety. This drove down U.S. Treasury bond yields dramatically, and also helped to lower rates in the mortgage market and on high-grade corporate debt. Some markets, however, were temporarily disrupted; related to this was an increase in business borrowing from banks, rather than directly from capital markets. Less creditworthy borrowers faced higher rates or were temporarily unable to find funds. As a result of this episode, awareness of the potential for discontinuities in financial markets has increased.

Impact on Federal Programs

These changes are affecting the roles, risks, and operations of Federal credit and insurance programs.

- In some cases, private credit and insurance markets may evolve sufficiently to take over functions previously left to Federal programs. More likely, they may take away the best risks among those who have been borrowing from the Government or with its guarantee, leaving the Federal program facing a smaller pool of riskier clients. If the Government is aware of this in time, the result may be new benefit/cost calculations that might help to redesign—or to end—the program. If the Government is caught unaware, the result may be greater cost for the taxpayers.

- At the same time, Federal programs can take advantage of the growing private capability. They can leverage it to provide additional assistance to their clients. With careful attention to the incentives faced by the private sector, they can develop a variety of partnerships with private entities. And they can contract with the private sector wherever it can provide specific credit servicing, collection, or asset disposition services more efficiently.

Insurance programs, too, are affected by the evolution of the financial marketplace. That is most obvious for deposit insurance, which now backs a recovered, consolidating industry, but one that has assumed the risks inherent in providing a growing array of increasingly sophisticated services, including many off-balance sheet activities, often on a world-wide basis. Depository institutions have become increasingly vulnerable to adverse shocks in foreign financial markets through loans, investments, foreign exchange transactions, and off-balance-sheet activities. In pensions, the Government guarantees defined-benefit plans, but defined-contribution plans play an increasing role—attracting the support of younger workers in an aging workforce. This trend may accelerate as the retirement of the baby boom generation nears. In disaster insurance, private firms are gaining a better understanding of their risks and exploring ways to diversify them in capital markets.

In this changing environment for Federal credit and insurance programs, this chapter asks three questions. First, what is our current understanding of the roles of these programs? Second, how well they are achieving their goals? And finally, could they be re-engineered to achieve greater benefits in relation to costs? A consortium of housing program managers, and managers of student, business, and international credit programs will be working intensively on this third question next year.

I. A CROSS-CUTTING ASSESSMENT

The Federal Role

In most lines of credit and insurance, the private market efficiently allocates resources to meet societal demands, and Federal intervention is unnecessary. However, Federal intervention may improve on the market outcome in some situations. The following are six standard situations where this may be the case,[1] together with some examples of Federal programs that address them.

- *Information failures* occur when there is an asymmetry in the information available to different agents in the marketplace. A common Federal intervention in such cases is to require the more knowledgeable agent, such as a financial institution, to provide certain information to the other party, for example, the borrower or investor. A different sort of information failure occurs when the private market deems it too risky to develop a new financial instrument or market. This is rare nowadays, but it is worth remembering that the Federal Government developed the market for amortized, fixed-rate mortgages and other innovations in housing finance.
- *Externalities* occur when people or entities either do not pay the full cost of their activities (e.g., pollution) or do not receive the full return. Federal credit assistance for students is justified in part because, although people with more education are likely to have higher income and even better health, they do not receive the full benefits of their education. Their colleagues at work, the residents of their community, and the citizens of the Nation also benefit from their greater knowledge and productivity.
- *Economic disequilibrium* is a third rationale for Federal intervention. This is one rationale for deposit insurance. If many banks and thrifts are hurt simultaneously by an economic shock, such as accelerating inflation in the 1970s, and depositors have a hard time knowing which ones may become insolvent, deposit insurance prevents a contagious rush to withdraw deposits that could harm the whole economy.
- *Failure of competition,* resulting from barriers to entry, economies of scale, or foreign government intervention, may also argue for Federal intervention—for example, by reducing barriers to entry, as has often been done recently, by negotiating to eliminate or reduce foreign government subsidies, or by providing countervailing Federal credit assistance to American exporters.
- *Incomplete markets* occur if producers do not provide credit or insurance even though customers might be willing to pay for it. One example would be catastrophic insurance, where there is a small risk of a very large loss; a disaster that occurred sooner rather than later could bankrupt the insurer even if premiums were set at an appropriate level to cover long-term cost. Another example is caused by "moral hazard" problems, where the borrower or insured could behave so as to take advantage of the lender or insurer. This is the case for pension guarantees, where sponsors might underfund plans, and for deposit insurance, where banks might take more risk to earn a higher return. In these cases, the Government's legal and regulatory powers provide an advantage in comparison with a private insurer.

[1] Economics textbooks also list pure public goods, like national defense, where it is difficult or impossible to exclude people from sharing the full benefits of the goods or services once they have been produced. It is hard to imagine credit or insurance examples in this category.

- In addition to correcting market failures, Federal credit programs are often used to *redistribute resources* by providing subsidies from the general taxpayer to disadvantaged regions or segments of the population.

In reviewing its credit and insurance programs, the Federal Government must continually reassess whether the direct and indirect benefits to the economy exceed the direct and indirect costs. This assessment should include the costs associated with redirecting scarce resources away from other investments. In some situations, the market may have recently become capable of providing financial services, and older Federal programs may need to be modified or ended to make room for private markets to develop. Private providers in similar circumstances might go bankrupt, merge, or change their line of business; for Federal programs, a policy decision and usually a change in law are needed to eliminate overcapacity. In other instances, Federal programs may be redesigned to encourage the development of private credit market institutions or to target Federal assistance more efficiently to groups still unable to obtain credit and insurance in the private market.

What Are We Trying to Achieve?

If the main Federal role is to provide credit and insurance that private markets would not provide—to stretch the boundaries in providing credit and insurance—the Federal goal is to achieve a net impact that benefits society. Together, these objectives make the standard for success of a Federal credit or insurance program more daunting than for a private credit or insurance firm.

For credit and insurance, as for all other programs, implementation of the Government Performance and Results Act (GPRA) will help to assess whether programs are achieving their intended results in practice—and will improve the odds for success. GPRA requires agencies to develop strategic plans in consultation with the Executive Branch, the Congress, and interested parties; this process should refine and focus agency missions. The strategic plans set long-range goals, annual performance plans set milestones to be reached in the coming year, and annual performance reports will measure agency progress toward achieving their goals.

GPRA defines four kinds of measures for assessing programs: inputs (the resources used), outputs (the goods or services produced), outcomes (the gross effects on society achieved by the program), and net impacts (the effects net of those that would have occurred in the absence of the program, e.g., with private financing). For credit and insurance programs, interesting interrelationships among these measures provide the keys to program success.

Net impacts assess the net effect of the program on intended outcomes compared with what would have occurred in the absence of the program. They exclude, for example, effects that would have been achieved with private credit in the absence of the program. Among the net impacts toward which Federal credit programs strive are: a net increase in home ownership, a net increase in higher education graduates, a net increase in small businesses, a net increase in exports, and a net increase in jobs.

For credit programs, the first key to achieving any of these net impacts is outreach. In the spirit of the Federal role, programs need to identify borrowers who would not get private credit. They need to reach out to underserved populations (e.g., low-income or minority people) and neighborhoods (urban and rural). They need to encourage the start-up of new activities (e.g., beginning farmers, new businesses, new exporters). They need to reach their legislatively targeted populations (e.g., students, veterans). Federal lending is often to higher-risk borrowers, or for higher-risk purposes. In order to assist certain target groups or encourage certain activities, credit may be extended for longer periods or at a lower cost to the borrower.

Achieving program objectives, however, also means finding ways to assist those borrowers at the boundary of private credit markets to repay their loans. This is not just a financial goal; it is necessary to achieve the program's social purpose. Home ownership requires mortgage repayment. Education that enhances income is associated with repayment of student loans. Remaining in business with a good credit rating requires repayment of small business, farm, and export loans. And loan repayment is inherent in program cost-effectiveness. Moreover, when the Federal Government bears risk for less creditworthy borrowers and does so in a way that fails to assist them to repay, they struggle with high debt burdens and are left with poor credit records.

With implementation of the Federal Credit Reform Act of 1990, Federal credit programs began to reconcile the tension between helping certain groups or purposes and "business-like" financial management. With the implementation of GPRA, they may begin to see program success and financial success as two facets of the same goal. The challenge is usually to identify "boundary" borrowers and to structure the loan and its servicing (including technical assistance) so as to pull those borrowers toward financial and programmatic success. In some cases, savings from improved credit program management may be reinvested to pull more borrowers across that boundary.

Outputs and outcomes, therefore, have an interrelationship which is crucial to the performance of credit programs. The most obvious output of Federal credit programs is the number and value of direct loans originated or loans guaranteed. But volume alone does not achieve the objectives of Federal credit programs; indeed, large volume or market share may mean that private lenders are displaced. Loans must have certain characteristics in order to achieve the desired outcomes and net impacts; these characteristics are therefore part of the desired program output.

Because of the Federal role, output measures should include an estimate of the percent of loans or guarantees originated going to borrowers who would otherwise not have access to private credit, and the percent of loans or guarantees originated going to specific target groups (e.g., veterans) or for specific purposes. Because of the Federal goal, output measures should include the percent of loans or guarantees that are current. This should be compared with the percent that were expected to be current at this point in the repayment cycle.

To assess the latter, program data should be analyzed to determine whether repayment prospects are enhanced by particular characteristics of loan structure (such as higher initial borrower equity), of loan origination (such as verifying borrower financial status), of loan servicing (such as prompt counseling), or of guarantee conditions (such as lender risk-sharing). When such characteristics help to control the cost of credit programs and to achieve desired outcomes, then these characteristics should be measured as part of the program's output.

The linkage between such output characteristics and the outcomes of Federal credit programs is not always fully recognized. For example, one desired outcome is to reach underserved populations or neighborhoods. To achieve this outcome, it would be useful to monitor whether loans are going to borrowers who would not otherwise have access to credit, or to specific target groups. Other desired outcomes include supporting investment important to the economy, encouraging startup of new activities, or contributing to sustained economic development. To achieve these outcomes, it would be useful to monitor whether the program's loans and operating procedures have characteristics that would enhance borrower repayment.

Inputs. Program cost is also a performance measure. For credit and insurance programs, it is a continuing challenge to understand and control the risks that the Government assumes and to measure the inherent cost. This is especially important in view of the rapid changes in financial markets discussed above and the increasingly complex financial instruments.

The subsidy cost of Federal credit programs, cumulated over time for each cohort of the program's loans or loan guarantees, is the main input. Another is the administrative cost of the program, including the cost of credit extension, direct loan servicing and guaranteed loan monitoring, collecting on delinquent loans and collateral, and other administrative costs such as policy making or systems development.

The relationship between these inputs is also crucial for credit programs. Careful servicing of loans, for example, can reduce default costs, and perhaps total program costs. So good servicing is good financial management for the taxpayer. But good servicing is also an art, which can—by assisting borrowers to repay—help to achieve the program's performance objectives. Private servicing of loans offers many examples of the gains from matching repayment to the borrower's flow of income, treating borrowers in different circumstances differently, and in other ways maximizing the borrower's chances to make good.

In sum, there are three relationships that seem to hold the key to excellence in credit program performance: the relationship between repayment and the achievement of program objectives, the relationship between the characteristics of credit program outputs and desired outcomes, and the relationship between subsidy cost and good servicing and program administration. Another important key to success is the speed with which the program adapts to market changes, including its ability to provoke or harness private markets into meeting Federal goals.

Principles for Re-engineering

In order to improve the effectiveness of Federal credit programs, OMB will be working with agencies to identify ways to re-engineer credit management. This effort will focus on improving servicing, will consider consolidation of functions such as data collection and asset disposition, will rely on the private sector when that would improve efficiency, will devise incentives to improve management and reduce cost, and will ensure the development of data for management and subsidy estimation.

The focus will be on managing the servicing, workout, and sale of any collateral efficiently. For example, why does the Federal Government pay claims on guaranteed loans and handle the workout, instead of leaving this to the originating lender? Why does the Government take over collateral? How do the timing and results of our asset disposition compare with private practice? Why do we make loans to finance purchases of collateral? What incentives and penalties would be useful for programs and program staff? For guaranteed loan originators? For contractors who service Federal loans or dispose of collateral?

OMB has developed a tentative set of principles for re-engineering credit programs that builds on OMB Circular A–129 and initial research. These will be modified by lessons learned as they are put into practice. The resulting principles are intended to improve the performance of Federal credit programs in the years ahead. Because private markets are extending credit where it was formerly unavailable, and because there is little purpose to re-engineering programs which are not justified, these principles start with basic questions of program justification. But their main focus is on how programs should be carried out.

Program Justification

1. *Credit assistance should be provided only when it has been demonstrated that private credit markets cannot achieve clearly defined Federal objectives.* What is the objective? Is access to private credit available? If not, why not? If so, is there a reason why private terms and conditions should be supplemented or subsidized? To what extent?

2. *Credit assistance should be provided only when it is the best means to achieve Federal objectives.* Can private credit markets be developed? Can market imperfections be overcome by information, regulatory changes, or other means? Would small grants for downpayments, capitalization for State, local, or nonprofit revolving funds, or other approaches be more efficient?

3. *Credit assistance should be provided only when its benefits exceed its cost.* Analyze benefits and costs in accordance with OMB Circular A–94.

Program Design

4. *Credit programs should minimize substitution for private credit.* What features of program design minimize displacement? Encourage and supplement private lending? To what extent is credit for this objective expanded by this program compared with what would be available in the absence of the program? What is the economic cost of the lending bumped from the credit queue?

5. *Credit programs should stretch their resources and better meet their objectives by controlling the risk of default.* What features of program design minimize risk? Are there incentives and penalties for loan originators and servicers to minimize risk? What features of the loan contract, the process of origination, the quality of servicing, and the workout procedures minimize risk? Do borrowers have an equity interest? Is maturity shorter than the economic life of the asset financed? Are the timing and amount of payment matched with availability of resources? Is timely reminder and technical assistance provided? How well is risk understood, measured, and monitored?

6. *Credit programs should stretch their resources to better meet their objectives by minimizing cost; where program purposes allow, most should be self-sustaining.* Do fees and interest cover the Government's cost, including administration? Are interest rates specified as a percent of market rates on comparable maturity Treasury securities? Are charges for riskier borrowers proportional to their higher cost?

Program Operations

7. *Credit programs should take advantage of the capacity, flexibility, and expertise available in competitive private markets unless the benefits of direct Federal operations can be shown to exceed the cost.* Private financial institutions may offer convenient access for borrowers, potential for graduation to private credit, economies of scale, ready adjustment to changing volume or location of loans, and knowledge of current credit conditions and techniques.

8. *The lender (in the case of a loan guarantee), the servicer, and the providers of workout and asset disposition services should have a stake in the successful and timely repayment of the loan or collections on claims and collateral.* Originators of guaranteed loans should bear a share of each dollar of default loss, and—unless other arrangements can be shown to be more cost-effective—should be responsible for handling workout. Each contract should include incentives for good performance, and penalties, including loss of business, for poor performance. The duration and scope of each contract or agreement should be limited so as to maximize specialization and competition, unless those are offset by economies of scale in operations and monitoring.

9. *Criteria should be established for participation in Federal loan guarantee programs by lenders, servicers, and providers of workout and asset disposition services.* These criteria should include financial and capital requirements for lenders and servicers not regulated by a Federal financial institution regulatory agency, and may include fidelity/surety bonding and/or errors and omissions insurance, qualification requirements for officers and staff, and requirements of good standing and performance in relation to other contracts and debts. Lenders transferring and/or assigning servicing, and lenders or servicers transferring and/or assigning workout or asset disposition, must use only entities which have qualified under the Federal participation criteria.

10. *When there are economies of scope or scale, the data gathering and analysis, servicing, workout, asset disposition, or other functions of specific credit programs should be combined or coordinated.* The sequence of operations should be streamlined, and accountability for each step clearly defined.

Program Monitoring

11. *Each program should maintain or receive monthly loan-by-loan transaction data and a system whereby this information triggers servicing, workout, and follow-up actions.* These data shall be linked by loan number to an analytical database showing characteristics of loans, borrowers, projects financed, financial information, credit ratings, and other data in a form suitable for use in subsidy estimation and loan pricing.

12. *Each program should design and carry out steps to foresee problems, and to inspect, audit, and assess the program's operations.* Methods should be benchmarked against the best practices used elsewhere. The program and its lenders, servicers, and other contractors should experiment with and assess ways in which the effectiveness or efficiency of the program might be improved or costs reduced.

II. CREDIT IN FOUR SECTORS

Housing Credit Programs and GSEs

The Federal Government provides loans and loan guarantees to expand access to home ownership to people who lack the savings, income, or credit history to qualify for a conventional home mortgage and to finance rental housing for low-income persons. The Departments of Housing and Urban Development (HUD), Veterans Affairs (VA), and Agriculture (USDA) made $150 billion of loan and loan guarantee commitments in 1998, helping nearly 1.5 million households. Roughly 1 out of 7 single-family mortgages originated in the United States receives assistance from one of these programs.

- HUD's Federal Housing Administration (FHA) runs a Mutual Mortgage Insurance Fund that guaranteed $90 billion in mortgages for one million households in 1998. Over three-fourths of these went to first-time homebuyers.
- The VA assists veterans, members of the Selected Reserve, and active duty personnel to purchase homes as a recognition of their service to the Nation. The program substitutes the Federal guarantee for the borrower's down payment. In 1998, VA provided $40 billion in guarantees to 369,000 borrowers.
- USDA's Rural Housing Service (RHS) guarantees up to 90 percent of an unsubsidized home loan. The program's emphasis is on reducing the number of rural residents living in substandard housing. In 1998, $2.8 billion of guarantees went to 39,400 households.

In addition, RHS offers a single-family direct loan program and both direct and guaranteed multi-family mortgages. FHA guarantees mortgages for multi-family housing and other specialized properties.

Housing Finance Challenges and Opportunities

Private banks, thrifts, and mortgage bankers, which originate the mortgages that FHA, VA, and RHS guarantee, may deal with all three programs, as well as with the Government National Mortgage Association (Ginnie Mae), which guarantees timely payment on securities based on pools of these mortgages. In addition, the same private firms originate conventional mortgages, many of which are securitized by Government-sponsored enterprises—the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Many of these firms already use or are planning to use electronic loan origination and are moving toward electronic underwriting. Behind such underwriting are data warehouses showing default experience by type of loan, borrower characteristics, home location, originator, and servicer, and models relating these factors to default cost. "Web lending" is also on the horizon.

These changes offer both challenges and opportunities to the Federal mortgage guarantors and Ginnie Mae. They are challenged to become electronically accessible to their clients and loan originators. They are challenged to assess and monitor their risks more closely, now that private firms are reaching out to the better risks among their potential clients. They also have an opportunity to provide better service, to lower cost and improve efficiency, and to target their efforts to help borrowers to retain their homes.

The Housing Consortium

In FY 1998, the FHA, VA, and RHS housing guarantee programs and Ginnie Mae formed The Federal Housing Consortium to adapt to the rapid shift to electronic underwriting and other technological developments in the private sector. The Consortium is the focus of agency efforts to keep abreast of changes in the housing credit market, accelerate adoption of best practices, establish common standards where possible, and make government systems compatible with the private sector.

Data Systems. The Consortium members are currently pooling resources to create a prototype data warehouse through which all members will have access to integrated data on program and borrower characteristics, lender and loan performance. It will provide timely, easily retrievable information, giving managers the ability to monitor the changing risk and cost of guarantees and the performance of guaranteed loan originators and servicers. Using the data warehouse and learning from each other and from the private sector, the Consortium will seek to improve loan origination, performance measurement, risk sharing and pricing, and asset disposition.

The Consortium is also working with Ginnie Mae to integrate and enhance Ginnie's two databases for use of all Consortium members. Ginnie's databases, the Issuer Portfolio Analysis Database System (IPADS) and the Correspondence Portfolio Analysis Database System (CPADS), receive monthly data from issuers of mortgage-backed securities, and monitor current performance by loan, originator, servicer, mortgage pool, security, and security issuer. Performance can be tracked and compared, taking account of differences between region, economic conditions, size and type of business, and age of portfolio.

Because Ginnie Mae guarantees timely payment of principal and interest on securities based on pools of mortgages guaranteed by FHA and VA, the issuers of these securities are almost always FHA and VA servicers. About 65 percent of RHS's single-family loans are also placed in Ginnie Mae pools. Thus, although the current analytical system is designed fill Ginnie Mae's needs, the same data and much the same system could be very useful to the loan guarantee programs. For example, CPADS could enable FHA and VA to monitor and assess how well the firms that originate and service the loans they guarantee are doing their jobs. Ginnie Mae has shared CPADS with FHA and VA for many years. RHS began a partnership with Ginnie Mae in 1998, and this year will have access to loan and lender performance data to analyze RHS loan guarantees.

Ginnie Mae has committed to making enhancements to IPADS/CPADS that will provide additional benefits to all three loan guarantee programs. The integration of IPADS and CPADS and an initial round of enhancements will be implemented this year. Further enhancements are planned in the future to enable the agencies to monitor and respond effectively to technological, institutional, and financial developments in the residential mortgage market.

Loan Origination. Electronic underwriting provides convenient, faster service at a lower cost to both lenders and borrowers. Freddie Mac and Fannie Mae are among the leaders in developing such systems and encouraging their use.

Both FHA and VA now permit mortgage lenders to use approved automated underwriting systems to originate their loans. Both undertook pilot assessment of Freddie Mac's "Loan Prospector" system; VA approved its use in October 1997 and FHA in February 1998. Both are now working with Fannie Mae to pilot "Desktop Underwriter,' and with other large mortgage originators. FHA and VA are also increasing the use of electronic data interchange to obtain information electronically from mortgage originators and servicers and to provide notifications and approvals for faster client services.

The RHS plans to develop the capacity to accept electronic loan originations from their participating lenders. Utilizing electronic loan origination technology will add significant benefits to loan processing efficiency and timeliness for both RHS and the lenders. RHS is also exploring using some form of automated underwriting and credit scoring. RHS's goal is to implement these improvements as soon as possible, but in order to ensure proper planning and maximum efficiency, complete adoption of these procedures is several years away.

Performance Measurement. Measuring loan servicing performance establishes a baseline for assessing changes to servicing practice. Monthly data will not only give housing programs a better understanding of how their guarantee portfolio behaves, but also how the federally guaranteed housing market as a whole performs. This information is critical for developing good performance standards.

FHA has created a loss mitigation program that scores lender performance on loss mitigation annually and provides incentives to lenders to hold down mortgage defaults and hold down FHA claim and property disposition costs relative to other lenders in each FHA insuring district.

RHS reviews at least 10 percent of the loans serviced by a lender every two years. If deficiencies in loan servicing or underwriting are noted, the lender is requested to take corrective action; its eligibility will be terminated if it does not comply. Since 1998, RHS has commissioned external audits of its largest loan servicers. The audits focus on both loan origination and loan servicing requirements. These audits have helped to pinpoint program weaknesses contributing to loan delinquencies. In addition, they serve to alert and train servicers on RHS guidelines and reporting requirements.

Risk Sharing and Pricing. Risk-based pricing is emerging in the conventional mortgage market as an important means by which lenders can take on more risk. Technology is giving lenders much more precise ability to assess the initial default risk associated with making a particular loan. This increasingly precise underwriting technology, in turn, allows lenders and insurers to adjust fees or loan rates and/or raise insurance premiums to reflect risk and loan cost accurately.

Federal loan guarantee programs will need to assess the impact of private sector customization on their loan portfolios, and may need to adopt a similar pricing structure or face adverse selection and larger losses. Currently, premiums are fixed in statute and vary only slightly with one dimension of risk, the initial loan-to-value ratio.

Asset Disposition. Common wisdom in the mortgage industry is to avoid foreclosure because that is when significant losses occur, including costs for maintenance and marketing. Managers of Federal guarantee programs have found that the best practice is to avoid taking the property into possession, and having to manage and dispose of foreclosed properties.

RHS already operates under the "best practice" for asset disposition. The lender is paid the loss claim, including costs incurred for up to six months after the default. After the loss claim is paid, RHS has no involvement in the loan, and it becomes the sole responsibility of the lender. In FY 2000, RHS will shorten the loss claim period from six months to three months through regulatory changes to encourage lenders to dispose of properties as efficiently as possible.

In 1998 the Administration proposed and Congress passed legislation giving new authority to FHA to pay claims prior to foreclosure, thereby allowing FHA to pass along defaulted notes to the private sector for servicing and/or disposition. When fully implemented, this new authority will reduce foreclosures and, for properties that do go into foreclosure, this new authority will greatly reduce the time such properties remain on the market.

In 1999, VA will eliminate its role in the disposition of foreclosed properties by outsourcing this function to the private sector. Thus, all three housing guarantee programs will be following "best practice."

RHS Single-family Direct Loans

RHS also provides subsidized single-family direct loans to very-low-and low-income borrowers unable to get credit elsewhere to purchase, rehabilitate, or repair homes. The most recent and on-going servicing improvement effort is the implementation of the Dedicated Loan Origination Service System (DLOS), which centralizes the servicing of the 502 Direct Loan program. DLOS has been a recent servicing improvement and, in conjunction with 2 major regulations implemented between 1996 and 1997, reduced RHS's direct loan subsidy rate by 40 percent.

RHS Multi-family Loans

RHS also offers direct loans to private developers to construct and rehabilitate multi-family rental housing for very-low-to low-income residents, elderly households, or handicapped individuals. It provided $151 million in direct loans in 1998, that will provide 7,890 units for very-low-income tenants. For the first time under permanent authorization, RHS obligated $39.7 million in loan guarantees for multi-family housing in 1998. The loan level is proposed to increase to $200 million for FY 2000, providing 5,380 new units for low to moderate income tenants. The cost of this program is primarily due to the subsidized interest component because default rates are expected to be low. The budget includes a legislative proposal to remove the requirement to provide subsidized interest on these loans, which would result in a negative subsidy. The budget also provides $40 million, a 33 percent increase over FY 1999, for the farm labor housing program ($25 million in loans; $15 million in grants) as part of USDA's civil rights initiative, which will provide an estimated 960 units for minority farmworkers and their families.

Fannie Mae and Freddie Mac

Because Fannie Mae and Freddie Mac, the largest Government-sponsored enterprises (GSEs), are the dominant firms in the secondary mortgage market, their business activities have a significant impact on the housing finance sector of the U.S. economy. These GSEs engage in two main lines of business: they issue and guarantee mortgage-backed securities (MBS), and they hold portfolios of mortgages, MBS, and other mortgage-related securities that they finance by borrowing. As of September 1998, Fannie Mae and Freddie Mac had $1.7 trillion outstanding in mortgages purchased or guaranteed. Of this, $0.6 trillion was retained in the GSEs' portfolios and $1.1 trillion was issued as MBSs (excluding MBSs held in portfolio).

The Federal Housing Enterprises Safety and Soundness Act of 1992 reformed Federal regulation of Fannie Mae and Freddie Mac. This Act created the Office of Federal Housing Enterprise Oversight (OFHEO) to manage the Government's exposure to risk by conducting examinations and enforcing minimum and risk-based capital requirements. Both GSEs have consistently met the minimum capital requirements, which are based on leverage ratios. The risk-based capital requirements will be based on a stress test. OFHEO has solicited public comment on a variety of issues related to a risk-based capital regulation and, in June 1996, published the first of two Notices of Proposed Rulemaking (NPR) on risk-based capital. OFHEO expects to publish its second NPR for public comment in 1999.

As required by the 1992 Act, the Secretary of Housing and Urban Development (HUD) issued a final regulation at the end of 1995 that established new goals for Fannie Mae and Freddie Mac to foster housing credit for lower-income families and under-served communities. For 1997 through 1999, the regulation requires each GSE to devote:

- 42 percent of its mortgage purchases to finance dwelling units that are affordable by low-and moderate-income families;
- 24 percent of its purchases to finance units in central cities, rural areas, and other metropolitan areas with low and moderate median family income and high concentrations of minority residents; and
- 14 percent of its purchases to finance units that are special affordable housing for very-low-income families and low-income families living in low-income areas.

During 1993–95, the GSEs were subject to transitional goals, and in 1996, they were subject to interim goals that were slightly lower than the goals for 1997–99. Fannie Mae and Freddie Mac each achieved all three goals in 1996 and 1997. HUD expects to publish new affordable housing goals for 2000 and thereafter in 1999.

In recent years, the GSEs have sought to maintain rapid growth in their earnings through even more rapid growth of their debt-financed holdings of mortgage assets. From September 1997 to September 1998, outstanding retained GSE holdings grew 28 percent in dollar volume, while total outstanding mortgage purchases grew 14 percent. Increased asset volumes imply increased risk exposures, as do some new activities, such as purchases of lower quality mortgages.

By contrast, some of the GSEs' new business activities and innovations may enhance their risk management capabilities. The GSEs' use of credit scores and automated underwriting may improve risk measurement and therefore mitigate the credit risks inherent in purchasing and securitizing mortgages. Similarly, the gradual development of risk-based pricing may more closely tie revenues to potential losses. For holders of mortgage credit risk, sophisticated risk measurement and pricing tools continue to lead to shifts in the distribution of risk among the GSEs, private mortgage insurers, lenders, and mortgage investors.

Federal Home Loan Bank System

The Federal Home Loan Bank System (FHLBS) was established in 1932 to provide liquidity to home mortgage lenders. The FHLBS carries out this mission by issuing debt and using the proceeds to make secured loans, called advances, to its members. Member institutions primarily use advances to finance residential mortgages and other housing related assets. Federally chartered thrifts are required to be FHLBS members, but membership is open to state-chartered thrifts, commercial banks, credit unions, and insurance companies on a voluntary basis. As of September 30, 1998, 6,806 financial institutions were FHLBS members, an increase of 388 over September 1997. About 71 percent of members are commercial banks, 25 percent are thrifts, and the remaining 4 percent are credit unions and insurance companies. However, nearly 50 percent of outstanding FHLBS advances were held by Federally-chartered thrifts as of September 30.

The FHLBS reported net income of $1.6 billion for the year ending September 30, 1998, up from $1.5 billion in the previous 12 months. System capital rose from $18 billion to $21 billion, while the ratio of capital to assets fell from 5.7 percent to 5.4 percent. Average return on equity was about 6.7 percent, after adjustment for payment of interest to the Resolution Funding Corporation (REFCorp). Outstanding advances to members reached $246 billion at September 30, 1998, a 35 percent increase over the $182 billion outstanding a year earlier. System investments other than advances fell to $136 billion, or about 35 percent of total assets, as of September 30, 1998. A year earlier, investments stood at $138 billion, or 42 percent of total assets.

The Federal Home Loan Banks are required by law to pay $300 million annually toward the cost of interest on bonds issued by the Resolution Funding Corporation and the greater of 10 percent of net income or $100 million to the Affordable Housing Program (AHP). In addition, the FHLBanks are required to provide discounted advances for targeted housing and community investment lending through a Community Investment Program. The need to generate income to meet the REFCorp and AHP obligations and still provide a competitive return on members' investment was a driving force behind the substantial increase in the System's investment activity in recent years. The System also needs to service a capital requirement which is based on members' asset size, mortgage holdings, and advances, rather than the amount of System risk.

In the past, the FHLBS' exposure to credit risk was virtually nonexistent. All advances to member institutions are collateralized, and the FHLBanks can call for additional or substitute collateral during the life of an advance. No FHLBank has ever experienced a loss on an advance.

While the FHLBanks face minimal credit risk on advances, the System's investment activities, including certain "pilots," do create certain risks. To control the System's risk exposure, the Federal Housing Finance Board (FHFB), the System's regulator, has established regulations and policies that the FHLBanks must follow to evaluate and manage their credit and interest rate risk. FHLBanks must file periodic compliance reports, and the FHFB conducts an annual on-site examination of each FHLBank. Each FHLBank's board of directors must establish risk management policies that comport with FHFB guidelines.

As a pilot activity, the FHFB has allowed some of the FHLBanks to underwrite mortgages jointly with their members. Under one such pilot, the FHLBanks finance the loans and assume the interest rate and prepayment risks, while the members originate and service the loans and assume the credit risk. All assets held by a FHLBank under this pilot are required, pursuant to the terms of the program, to be credit enhanced to at least the level of an AA security. Through these pilot programs, the FHLBS is expanding its traditional role as a wholesale lender as a means of promoting housing finance and community investment.

The FHLBS' investment activities also pose important public policy issues about the degree to which the composition of assets on the FHLBS' balance sheet adequately reflects the mission of the System. Over the last year, outstanding advances as a percentage of the System's outstanding debt increased by nearly ten percent. In addition, as of September 30, 1998, about 60 percent of advances outstanding had a remaining maturity of greater than one year—up from about 40 percent a year earlier. Despite this progress, investments (other than advances) currently represent over one-third of the System's assets and are used to conduct extensive arbitrage—the System issues debt securities at close to U.S. Treasury rates and invests the proceeds in other, higher-yielding securities. In fact, in 1998 the FHLBS issued $2.4 trillion in debt securities and became the world's largest issuer of debt. However, the majority of debt issued by the System is short-term, and total debt outstanding was only about $336 billion at the end of 1998.

An enormous, liquid, and efficient capital market exists for conventional home mortgages today. And, over the years, the FHLBS has played an important role in developing and expanding this market. The FHLBanks continue to provide valuable services to their members. They assist members in remaining competitive in housing finance and managing interest-rate risk, and offer their members a reliable source of funds, as evidenced by the recent increase in advances. However, as a result of GSE and Federal agency sponsorship of secondary markets and the increasing presence of private securitizers, lenders have access to substantial liquidity sources other than FHLBS advances. As with other GSEs, the role and risks of the FHLBS will be tested in the face of rapidly changing financial markets and potential changes in the structure and activities of the industry served by the FHLBS.

Education Credit Programs and GSEs

Student Loans

The Department of Education helps to finance student loans through two major programs: the Federal Family Education Loan (FFEL) program and the William D. Ford Federal Direct Student Loan (FDSL) program. Eligible institutions of higher education may choose to participate in either program. Loans are available to students and their parents regardless of income. Borrowers with low family incomes are eligible for higher interest subsidies.

In 2000, more than 6 million borrowers will receive 9.4 million loans totaling over $41 billion. Of this amount, $34 billion is for new loans and the remainder is to consolidate existing loans. Loan levels have risen dramatically over the past 10 years as a result of rising educational costs, higher loan limits, and more eligible borrowers. The upward trend is expected to continue for the next five years.

The Federal Family Education Loan program provides loans through a complex administrative structure involving over 4,100 lenders, 36 State and private guaranty agencies, 50 participants in the secondary markets, and nearly 4,000 participating schools. Under FFEL, banks and other eligible lenders loan private capital to students and parents, guaranty agencies insure the loans, and the Federal Government reinsures the loans against borrower default. In FY 2000, FFEL lenders will disburse more than 6 million loans exceeding $25 billion in principal. Lenders bear two percent of the default risk, and the government and guaranty agencies are responsible for the remainder. The Department also makes administrative payments to guaranty agencies and pays interest subsidies to lenders.

The Federal Direct Student Loan program was authorized by the Student Loan Reform Act of 1993 to enable students and parents to obtain and repay loans more easily than under the FFEL program. Under FDSL, the Federal Government provides loan capital directly to 1,300 schools, which then disburse loan funds to students—greatly streamlining loan delivery for students, parents, and schools. In FY 2000, the FDSL program will generate more than 3.4 million loans with a total of over $16 billion. The program offers a variety of flexible repayment plans including income-contingent repayment, under which annual repayment amounts vary based on the income of the borrower and payments can be made over 25 years.

Reform proposals. The Administration is proposing legislation to restructure and improve the efficiency of the guaranteed loan system and to provide additional benefits to students. Proposed changes will save $4.6 billion over five years.

The Administration is proposing to extend the temporary Consolidation Loan policies included in the recent Higher Education Amendments of 1998 (HEA) through the end of fiscal year 2000. This proposal would maintain the interest rate on Direct Consolidation Loans—scheduled to increase on February 1, 1999—at the 91-day Treasury bill rate plus 2.3 percent, producing significant savings for students while encouraging competition between the Direct Loan and Federal Family Education Loan programs. The proposal would also maintain the reduced FFEL Consolidated Loan holder fee at 0.62 percent of outstanding volume, rather than increase the fee to 1.05 percent on February 1, 1999, as required under the HEA.

The Administration is also proposing to improve the management and collection of defaulted loans through four new initiatives, three of which build on provisions enacted in the HEA. First, the amount guaranty agencies may retain on default collections will be reduced from 24 percent to 18.5 percent—approximately the rate paid on loans collected by the Department of Education through competitively awarded contracts. This will provide the guaranty agencies greater incentive to increase collections on defaulted loans in order to bolster revenues. Second, the Administration proposes increasing true risk-sharing between the Federal government and guaranty agencies. Complementing the reduction of re-insurance to guaranty agencies from 98 to 95 percent specified in HEA, the Administration proposes eliminating provisions that allow agencies to recoup this 5 percent cost from subsequent default collections. As such, the Administration expects greater emphasis on default avoidance activities. Third, the HEA extended the time before lenders may submit a default claim on a delinquent loan from 180 days to 270 days. In order to promote risk-sharing and increase lenders' incentive to bring these loans back into repayment, the Administration is proposing that interest not continue to accrue during this additional 90-day period. Again, this proposal provides default avoidance incentives. Lastly, data from the Department of Health and Human Services' National Directory of New Hires (NDNH) will be made available to assist in the Department of Education's default collection efforts. Defaulted debtor data matching will provide the Department of Education with current borrower address information for collection activities.

The Administration is also proposing to expand the use of voluntary agreements which were created by the HEA to afford greater regulatory flexibility to a limited number of guaranty agencies. The broader availability of these voluntary flexible agreements will reduce the need for agencies to hold Federal reserve funds; accordingly, the Administration is proposing to bring forward and augment the reserve recall provisions included in the HEA. The Administration would recall a total of $1.5 billion in additional reserves over fiscal years 2000–2004.

The Administration is proposing to reduce interest subsidy payments to 20 basis points on FFEL loans funded through tax-exempt securities. This reduction will bring lender returns on these loans in line with those realized on loans funded with private capital.

The Department of Education continues to improve program integrity and reduce default costs. The Department will use newly automated systems to review and analyze institutional eligibility information, and will target its regulatory and enforcement efforts on high-risk institutions. Over the past several years, improvements in oversight and termination of schools with high default rates have led to the removal of approximately 1,700 schools. An additional 300 schools were eliminated from the student loan programs, but remain eligible for other Federal student aid. This has helped reduce the national student loan cohort default rate from 10.4 percent for 1995 to 9.6 percent for 1996, the fifth straight year of decline. This rate is the percentage of borrowers who enter repayment in a given year and for whom a default claim is paid before the end of the following year.

As one of Education's Performance Management Objectives, modernizing student aid benefit delivery is a key priority. Accordingly, the Department has converted the Office of Student Financial Assistance into the government's first-ever Federal performance-based organization. The PBO is designed to improve the management of all student aid programs, using its expanded procurement and contracting flexibilities. This new organization will focus on re-engineering information systems and expanding electronic data exchange to improve customer service, enhance data quality, and lower costs. The PBO will work with students, lenders, guaranty agencies, and others to develop a strategic performance plan to address customer needs, enabling more students to gain information on Federal aid on the Internet, apply for it electronically, and have their eligibility determined quickly.

Sallie Mae

The Student Loan Marketing Association (Sallie Mae) was charted by Congress in 1972 as a for-profit, shareholder-owned, Government-sponsored enterprise (GSE). Sallie Mae was privatized in 1997 pursuant to the authority granted by the Student Loan Marketing Association Reorganization Act of 1996. The GSE is a wholly owned subsidiary of SLM Holding Corporation and must wind-down and be liquidated by September 30, 2008. Legislation in the Omnibus Consolidated and Emergency Supplemental Appropriations for FY 1999 allows the SLM Holding Corporation to affiliate with a financial institution upon the approval of the Secretary of the Treasury. Any affiliation will require the holding company to disolve the GSE within two years of the affiliation date.

Sallie Mae makes funds available for student loans by providing liquidity to lenders participating in the FFEL program. Sallie Mae purchases insured student loans from eligible lenders and makes warehousing advances (secured loans to lenders). Generally, under the privatization legislation, the GSE cannot engage in any new business activities or acquire any additional program assets other than purchasing student loans. The GSE can continue to make warehousing advances under contractual commitments existing on August 8, 1997. Sallie Mae currently holds about one-third of all outstanding guaranteed student loans.

Business and Rural Development Credit Programs and GSEs

Small Business Administration

Over the past six years, SBA has expanded small businesses' access to credit, increasing its annual loan volume by 55 percent, from $7.4 billion in 1993 to $11.5 billion in 1998. This increase, across all of SBA's business credit programs, has occurred while staffing has been reduced by about 20 percent. Although SBA's general business lending declined slightly in FY 1998 due to a favorable interest rate climate and commercial lenders' aggressive small business lending goals, the expansion of SBA's venture capital and capital asset financing programs contributed to a net $5 billion increase in the total guaranteed portfolio in FY 1998.

SBA's principal program, Section 7(a) General Business Loans, has improved access to credit for the Nation's most under-served small businesses over the last three years through several successful initiatives. The Low Documentation (LowDoc) initiative reduced the application form for 7(a) loans under $100,000 to a single page, allowing both lenders and SBA to process loans in less than two days. The SBAExpress program (the former FA$TRACK pilot, now permanent) allows lenders to use their own forms and procedures in exchange for a reduced Government guarantee. These initiatives—and aggressive lending goals—have helped to increase loan approvals to minority-and women-owned businesses from $1.8 billion in FY 1993 to $4 billion in FY 1998.

Increasing Access to Credit

SBA is proposing several new intiatives to further expand access to credit by qualified borrowers who are unable to secure financing without Government participation.

Targeting "new markets." In FY 2000, SBA proposes to target "new markets"—regions where small business growth has been very limited. The proposed initiatives will provide patient capital and technical assistance to private-sector lenders and non-financial intermediaries in underserved inner cities and rural areas. SBA will also expand the number of participating intermediaries in the microloan program, which to date has experienced no defaults as a result of strict agency oversight and rigorous reserve requirements.

Financing smaller loans. Commercial lenders frequently avoid making smaller loans due to high fixed costs per dollar lent, resulting in an access barrier for many startup firms or established firms whose financing needs do not meet the lenders' minimum thresholds. To close this access gap, SBA is proposing to standardize the guarantee fee and to increase the maximum guarantee percentage to 80 percent on loans up to $150,000 in order to provide an incentive to lenders to make these loans. This will result in higher subsidy costs due to reduced fee revenue and higher claim payments in the event of default.

Integrating Private Sector Practices

Reliance on private sector partners. With its portfolio growing from $20.7 billion in FY 1993 to $35.0 billion in FY 1998, SBA has relied increasingly on private sector partners for loan servicing and liquidation. The 7(a) program, which accounted for more than 70 percent of SBA's business lending in FY 1998, has experienced the greatest shift to private partnership. Under the Preferred Lender Program (PLP), SBA's most experienced lenders have authority to approve, service, and liquidate SBA-guaranteed loans in exchange for a reduced guarantee. Loans approved through PLP lenders comprised 58 percent of all 7(a) loans approved in FY 1998, a share that is expected to continue to grow. SBA also requires all non-PLP lenders to service and liquidate their SBA-guaranteed loans. These policies have shifted SBA's principal role from origination and servicing to one of oversight and monitoring of private sector partners.

In FY 2000, SBA proposes to broaden the universe of firms eligible to make SBA-guaranteed loans by licensing up to 10 New Markets Lending Companies, some of which may also fall into the category of Small Business Lending Companies, SBA-approved and monitored non-depository lending institutions. These nonfinancial intermediaries often operate in regions where qualified borrowers' access to credit through traditional commercial financial institutions is limited. In addition, the Section 504 Certified Development Company (CDC) liquidation pilot program was made permanent in FY 1998. Under this program, qualified CDCs service and liquidate SBA-guaranteed Section 504 development company debentures, increasing the agency's reliance on its non-Federal partners.

Need for better oversight tools. Over the past six years, SBA has significantly increased its loan portfolio, reduced staffing, and delegated its servicing and liquidating authorities to its private sector partners. During this period, commercial small business lenders have become increasingly more sophisticated in identifying credit risk, and many of them now pursue aggressive small business lending goals. This expands small businesses' access to capital, but may also concentrate higher-risk loans in SBA loan guarantee programs.

These trends reinforce SBA's need to improve oversight tools. SBA continues to struggle with antiquated financial systems. Its managers need improved access to timely and accurate analysis of portfolio trends and information on the performance of its private sector partners. To ensure that the agency meets its portfolio management responsibilities, SBA will invest $8 million in 1999 to improve portfolio oversight. An additional $8 million is requested for 2000. This funding will allow SBA to improve internal accounting systems, recruit expertise in lender oversight, develop the necessary inhouse systems to support lender monitoring, and create a centralized corporate database. Drawing on the experience of financial institutions such as Fannie Mae and Freddie Mac, SBA will also establish loan servicing performance goals for its private sector partners.

Reform initiatives. In FY 2000, SBA will continue to shift from loan servicing to lender oversight. Initiatives already in progress include: (1) delegating remaining 7(a) servicing and liquidation to its lending partners, including requiring them to service and liquidate all defaulted loans, (2) selling all direct loans and defaulted guarantees, and (3) making strategic investments in better portfolio oversight tools. This will allow SBA to focus on its goals of increasing access to credit, while relying on private lenders to perform functions where they have historically been more efficient. In conjunction with this shift in agency focus, SBA is proposing to implement a multi-year workforce transition strategy, beginning in FY 2000, to retrain workers in the skills needed in the SBA of the 21st Century, move employees to those functions where their skills will be most utilized, and provide retirement incentives for those employees who do not wish to participate in the transition effort.

Loan asset sales. One of the most significant events in completing the transition from loan servicing to lender oversight is SBA's planned sale of its current portfolio of defaulted guaranteed loans and direct loans in 1999, 2000, and 2001. The Disaster loan portfolio will be sold in 1999 and 2000. Implementation of an ongoing sales program will be based upon the knowledge gained in these upcoming sales. Drawing on the experience of Federal agencies such as the Resolution Trust Corporation and the Department of Housing and Urban Development, and SBA's analysis of its portfolio value stemming from its Liquidation Improvement Project, the Administration estimates that SBA's business loan assets (face value of approximately $2 billion) can be sold at a gain to the government. It is estimated that disaster loans can be sold at their current value. These sales are also expected to yield future operational cost savings.

USDA Rural Infrastructure and Business Development Programs

USDA provides grants, loans, and loan guarantees to communities for constructing facilities such as health-care clinics, day-care centers, and water and wastewater systems. Direct loans are available at lower interest rates for lower-income communities. These programs are targeted to rural communities with fewer than 10,000 residents.

USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, including cooperatives, to increase employment and diversify the rural economy. In 2000, USDA proposes to provide $1 billion in loan guarantees to rural businesses, and $50 million in direct loans. USDA's assistance to rural businesses has grown from $100 million in 1993 to almost $1.1 billion in 1998. The default rate for these community programs is low.

The 1996 Farm Bill enacted the Rural Community Assistance Program (RCAP). Funding for 12 USDA rural development activities was consolidated into a "performance partnership" to provide more flexibility in targeting Federal assistance to the highest-priority needs of States and localities. In FY 1997, Congress provided increased flexibility through three funding "streams," but blocked transfers among streams. In FY 1998, Congress consolidated the three streams into one RCAP account, but the FY 1998 and 1999 bills still did not allow transfers between funding streams. The budget proposes $668 million for a fully flexible RCAP.

Electric and Telecommunications Loans

USDA's rural electric and telecommunications program makes new loans to maintain existing infrastructure and to modernize electric and telephone service. Historically, the Federal risk associated with the $33 billion loan portfolio in electric and telephone loans has been small, although several large defaults occurred in the electric program, primarily as a result of nuclear power construction loans, and $667 million was written off in 1997. However, both the telephone and electric industries are moving into a more competitive environment.

In the electric industry, increased deregulation may erode loan security and the ability of some borrowers to repay. Maintaining the goal of "affordable, universal service" is also of concern to USDA. Many rural cooperatives are by nature high cost providers of electricity, since there are fewer subscribers per line-mile than in urban areas. This Budget includes a legislative proposal for a new direct Electric Loan Program with a loan level of $400 million. Borrowers would pay an interest rate equal to the Treasury rate. This loan program would be an additional tool to help provide for the increasing demand for electric distribution loans as rural borrowers begin to position themselves in a newly competitive deregulated environment. The demand for loans to rural electric coops is expected to continue to rise as borrowers replace many of the 40-year-old electric plants.

The Rural Telephone Bank (RTB) provides financing for rural telecommunications systems. The FY 1998 Budget proposed, but did not achieve, privatization of the RTB. The 2000 Budget proposes legislation to charter the RTB as a Performance-Based Organization (PBO). As a PBO, the RTB would remain under the Secretary of Agriculture through majority Federal membership on the RTB Board of Directors. The RTB's managers would be required to set strategic and financial goals. A key goal would be to achieve privatization within 10 years; the RTB would be on-budget until fully privatized.

As a PBO, the RTB would have authority to hire its own personnel, and appoint its own CEO and CFO. It could seek waivers from government-wide regulations, policies, and procedures. Funding for both administrative expenses and subsidy budget authority would be provided from the RTB liquidating account balances beginning in 2000. It could establish its interest rates, charge administrative fees, and retain proceeds from any negative subsidies for RTB operations. It would also have authority to prepay its outstanding Treasury borrowing without penalty. This approach would allow the RTB to establish a private governance structure and demonstrate its ability to be financially self-sufficient, which should help prepare it for privatization. A privatization feasibility study will be required within 3 years.

Loans to Farm Operators

Farm Service Agency (FSA) direct and guaranteed operating loans provide credit to farmers and ranchers for annual production expenses and purchases of livestock, machinery, and equipment. Direct and guaranteed farm ownership loans assist producers in acquiring their farming or ranching operations. These loans are proposed to increase as part of USDA's Civil Rights Initiative. As a condition of eligibility for direct loans, borrowers must have been denied private credit at reasonable rates and terms, or they must be beginning or socially disadvantaged farmers. Loans are provided at Treasury rates or 5 percent. As FSA is the "lender of last resort," high defaults and delinquencies are inherent in the direct loan program; over $15 billion in direct farm loans have been written off since 1988.

FSA guaranteed farm loans are made to more creditworthy borrowers who have access to private credit markets. Because the private loan originators must retain 10 percent of the risk, they exercise care in examining borrower repayment ability. As a result, guaranteed farm loans have not experienced losses as high as those on direct loans.

The 1999 Appropriations Bill changed portions of the servicing requirements for delinquent borrowers. A borrower who has received an FSA loan write-down or write-off may now be eligible for an additional farm operating loan when the borrower is current under a debt reorganization plan or in certain emergency circumstances. Property acquired through foreclosure on direct loans must now be sold at auction within 105 days of acquisition, and leasing of inventory property is no longer permitted except to beginning farmers. Prior to the 1996 Farm Bill, acquired property remained in inventory on average for five years before the FSA could dispose of it.

The Farm Credit System and Farmer Mac

The Farm Credit System (FCS) and the Federal Agricultural Mortgage Corporation (Farmer Mac) are GSEs that enhance credit availability for the agricultural sector. The FCS is a direct lender, financing its loans largely through bond sales in the national credit markets, while Farmer Mac facilitates a secondary market for agricultural loans. Both GSEs face a business risk exceeding that of other GSEs because their borrowers are generally dependent on a single economic sector: agriculture. The Farm Credit Banks are also geographically limited, often to areas dependent on one or a few commodities. The downturn in the agricultural economy in the 1980s led the FCS to the brink of insolvency. Legislation in 1987 provided Federal assistance to bail out the FCS and created Farmer Mac.

The Nation's agricultural sector and its lenders are now on much firmer ground, although periodic commodity price and income declines, such as experienced in some parts of the country in 1998, highlight its continuing volatility. Strong farm income has enabled most borrowers to improve their debt-to-asset ratios, and lenders to augment their capital. Farmland prices regained most of their previous levels in 1997 and generally held steady in 1998. Interest rates and inflationary expectations remain low. Credit usage by farmers and credit standards of lenders are more conservative. However, the emergence of non-traditional, trade-credit lenders has increased competition among lenders.

Another sign of the increasing health of agricultural finance is the greater share of credit provided by commercial banks. From 1986 to 1997, commercial banks' share of all farm debt increased from 24 percent to 41 percent, while the share for FCS declined from 29 percent to 26 percent and for USDA from 12 percent to 6 percent. In 1995, however, FCS's share of farm operating loans began to creep up—a trend that continued through 1996, leveling-off in 1997. FCS is expected to maintain 1997 market share levels in 1998 at 19 percent.

The Farm Credit System

The Farm Credit System has achieved positive net income every year in the past decade, including over $1 billion in each of the last five years. Nonperforming loans increased slightly to 1.65 percent of the portfolio, up from 1.5 percent in 1997. Loan volume has gradually increased since 1992, although the $66.1 billion in September 1998 is far below the high of over $80 billion in the early 1980s. Increases in loan volume and declines in the cost of funds have widened the FCS's net interest margin from less than one percent in 1987 to 2.93 in 1997.

Improved asset quality and income enabled FCS to post record capital levels: by September 30, 1998, capital stood at $12.4 billion—an increase of 9 percent for the year, primarily as a result of retained earnings. Included in this capital are investments set aside to repay about $600 million of the $1.3 billion of Federal assistance provided through the Financial Assistance Corporation (FAC) due beginning in 2003. The System has adopted an annual repayment mechanism required of FCS institutions to cover the remainder. The FCS has further reduced its risk exposure by retiring all of its high-coupon long-term debt, using marginal cost loan pricing, and adopting asset/liability management practices designed to reduce its interest rate risk.

Operating risk is also being reduced. Substantial consolidation has occurred in the structure of the FCS. In January 1988, there were 12 FCS districts with 36 banks plus 376 associations; by December 1998, there were only 6 FCS districts, 8 banks and 189 associations.

The 1987 Act established the FCS Insurance Corporation (FCSIC) to insure timely payment of interest and principal on FCS obligations. Insurance fund balances, largely comprised of premiums paid by FCS institutions, supplement the System's capital, the joint and several liability of all System banks for FCS obligations, and the Farm Credit Administration's enforcement authorities. On September 30, 1998, the Insurance Fund's net assets were $1.2 billion, and are estimated to attain the statutorily required level of two percent of outstanding debt in 2000.

Improvement in the FCS' financial condition is also reflected in the evaluations of FCS member institutions by the Farm Credit Administration (FCA), its Federal regulator. The FCA rates each of the System's institutions for capital, asset quality, management, earnings, and liquidity (CAMEL). At the end of 1990, 94 institutions carried the best "CAMEL" ratings of "1" or "2," and 40 were rated in the problem range of "4" or "5." By September 1998, in contrast, 201 institutions were given the top ratings, only 3 received the mid-range rating of "3," and none was rated "4." Enforcement actions to correct illegal or unsafe operations were applied to 77 institutions, with 80 percent of the FCS's assets, in 1991, but only 1 institution, with 0.5 percent of the FCS's assets, in 1998.

FCS loans outstanding as of September 1998 were $66 billion, up 5 percent over 1997, and representing a 32 percent increase since 1990. Loans to farmers and other eligible producers comprise 73 percent of the System's portfolio. The volume of lending secured by farm land has been generally stagnant since 1990, but farm operating loans have increased by 41 percent since

1992, with most of the gain since 1994. Loans to finance processing, marketing, credit cooperatives, and rural utilities cooperatives accounted for 21 percent of FCS's portfolio at fiscal year-end 1998.

During 1997, the FCA published regulations that expand the agriculture-related business loan-making authority of Farm Credit System banks. Previously, System banks could only lend to businesses that provided custom services performed on the customer's farm, such as hiring owner/operators of harvesting machinery. Under the revised rules, farm-related businesses are eligible for full-firm financing if more than 50 percent of their income is derived from farm-related services. Furthermore, if less than 50 percent of the firm's income is farm-service related, then at least the farm-related service portion of the firm's business is eligible for financing. The rule also permits Farm Credit banks to finance non-farm, single-family, moderately priced homes for residents of rural areas (where the population does not exceed 2,500 in a village or town).

The Farm Credit System is stronger now than it has been in years. But primarily due to its concentration in agriculture, it is exposed to risks arising from natural disasters, changes in Government policies toward agriculture, and to structural changes in the agricultural and commercial banking sectors. From 1995 through 1998, FCS's loan growth rate increased, in part due to more aggressive lending as its capital strengthened. Volatility of agricultural exports and crop prices will continue to be a risk factor for future repayment and collateral capacity. However, 1998 farm income, including government assistance, is anticipated be the fourth highest on record at $48 billion, down from $49.8 billion in 1997.

Farmer Mac

Farmer Mac was established in 1987 to create and oversee a secondary market for, and to guarantee securities based on, farm real estate and rural housing loans. Since the 1987 Act, Farmer Mac's authorities have been legislatively expanded to permit it to issue its own debt securities, and to purchase and securitize the guaranteed portions of farm program, rural business, and community development loans guaranteed by the USDA (known as the "Farmer Mac II" program). The Farm Credit System Reform Act of 1996 transformed Farmer Mac from just a guarantor of securities formed from loan pools into a direct purchaser of mortgages in order to form pools to securitize.

The 1996 Act was passed in response to a steady erosion of Farmer Mac's capital base. Revenues had not met expectations and showed no prospect of improvement. The new powers increase commercial banks' incentives to participate in Farmer Mac. However, these powers also subject the Corporation to more credit risk. As a direct purchaser of loans with no required subordination, Farmer Mac is exposed to greater risk and must set appropriate fees and level of capital reserves.

Farmer Mac has taken steps to minimize losses on securitized loans under the new authorities. These steps include: (1) a higher annual guarantee fee of 50 basis points on securitized loans, (2) a loan loss reserve adequate to cover anticipated losses, and (3) loan underwriting standards that include a maximum loan-to-value ratio of 70 percent for loans up to $2.3 million and 60 percent for loans between $2.3 million and $3.3 million.

The 1996 Act gave Farmer Mac three additional years to reach its capital requirements, and 2 years to raise capital to $25 million. In December 1996, Farmer Mac sold 1.4 million shares of Class C common stock, generating $32 million of new equity. In November 1997, Farmer Mac completed its second public offering, selling 400,000 shares of Class C common stock and raising $23 million of new equity. Farmer Mac's year-end 1998 capital is estimated to be about $80 million—three times greater than the 1996 statutory capital requirement and fully compliant with the revised regulatory capital requirements.

International Credit Programs

Seven Federal agencies, the Departments of Agriculture, Defense, State, and Treasury and the Agency for International Development, the Export-Import Bank, and the Overseas Private Investment Corporation, provide direct loans, loan guarantees, and insurance to a variety of foreign private and sovereign borrowers.

Through the Trade Promotion Coordinating Committee (TPCC), agencies providing export credit have developed a unified National Export Strategy, and they are working together to make the delivery of trade promotion support more effective and convenient for U.S. exporters.

Leveling the playing field. The Federal Government provides credit to U.S. exporters to offset the subsidies that foreign governments, largely in Europe and Japan, provide their exporters usually through export credit agencies (ECAs). Although the Arrangement on Official Export Credits of the Organization for Economic Cooperation and Development (OECD) has significantly constrained direct interest rate subsidies and tied-aid grants, foreign ECAs continue to provide implicit subsidies (by charging interest rates or fees that do not fully compensate for risk).

The Export-Import Bank (Eximbank) attempts to strategically "level the playing field" and to fill gaps in the availability of private export credit. Compared to the other major ECAs, Eximbank provides the most unrestricted financing, and provides this financing in almost twice as many markets as its nearest competitor.

USDA's GSM–102 and 103 programs guarantee credit extended by private U.S. exporters and U.S. financial institutions to facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales. The GSM programs are targeted to countries where government guarantees are needed to counter competition from countries that offer credit through ECAs or commodity marketing boards.

The increase in world trade and the globalization of capital markets have officially supported direct and guaranteed credit, including export credit, somewhat less important in recent years. Aggregate net resource flows to all developing countries grew from $144 billion in 1992 to $300 billion in 1997. In comparison, resource flows from official direct or guaranteed credit fell from $23 billion in 1992 to $10 billion in 1997.

Stabilizing international financial and commercial markets. In today's global economy, the health and prosperity of the American economy depend importantly on the stability of the global financial system and the economic health of our major trading partners. The United States has several ways in which it can help to stabilize world financial markets. It can provide resources on a multilateral basis through the IMF (discussed in other sections of the President's Budget), or through a bilateral loan provided by the Exchange Stabilization Fund (ESF).

The ESF provides "bridge loans" to other countries in times of short-term liquidity problems and financial crises. In the past, "bridge loans" from ESF have usually provided dollars to a country over the short period before the first disbursement under an IMF loan. A $12.5 billion "bridge loan" of ESF was provided to Mexico during its crisis in 1995. This loan was essential in helping to stabilize Mexico, as well as the global financial markets. Mexico paid back its loan ahead of schedule in 1997, and the loan didn't cost the taxpayers any money.

ESF support was offered in response to the crises in some Asian economies, including South Korea. These ESF facilities would have carried interest rates that would have resulted in zero subsidy cost for the United States as defined under credit reform. While the ESF was not drawn upon by any of these countries, the offer in and of itself helped to provide the international confidence needed by these countries to begin the stabilization process.

Export credit programs also help to ensure continued access for US exporters to important overseas markets facing liquid problems. In response to the Asian financial crisis, USDA's GSM programs in FY 1998 were expanded by 40 percent (to $4 billion) over the previous year to assist these countries in meeting their food and agricultural import needs.

Supporting more manufacturing exports in more markets. In FY 1998, Ex-Im Bank supported exports totaling $13 billion with a budget of $683 million. Ex-Im Bank's role is particularly critical now, because banks have rolled back, or stopped in some cases, providing credit to many developing countries that are key markets for U.S. exports. The FY 2000 budget proposes $81 million in additional funds for Ex-Im Bank—10 percent above its FY 1999 budget of $815 million—so that Ex-Im Bank can:

- *Help meet the demand for financing aircraft and capital equipment exports in developing markets.* One of every four U.S. commercial aircraft is sold to an Asian airline, but commercial credit has decreased drastically because of Asia's economic problems. Ex-Im Bank currently finances 10 percent of all U.S. capital equipment exports to the developing world. More funding will allow Ex-Im to provide significantly more long-term financing for exports of U.S. manufactured capital goods and aircraft.
- *Expand short-term and medium-term credit to keep U.S. products flowing to emerging markets where private sector financing is no longer available.* Ex-Im Bank supported 2,400 transactions involving more than $1 billion in U.S. exports to Korea in 1998 (up from $50 million in 1997). Ex-Im has been active in expanding support for U.S. businesses seeking to sell goods and services to Brazil. To date in FY 1999, Ex-Im has opened for financing short-, medium-, and long-term transactions in the public sector and has increased its credit limit to certain Brazilian banks seeking to purchase U.S. products.
- *Finance exports to riskier markets.* U.S. exporters increasingly seek Ex-Im financing to meet the demand in riskier markets, but the higher cost of providing such financing strains Ex-Im's budget. Ex-Im support is critical in these markets because bank financing often is unavailable, and U.S. exporters compete with government-financed foreign firms.

Using credit to promote sustainable development. Credit has become an increasingly important tool in U.S. bilateral assistance to promote sustainable development. USAID received funding through transfer authority in the FY 1998 budget for a new credit program, the Development Credit Authority (DCA). The DCA will provide loan guarantees in cases where credit is the most effective mechanism to achieve sustainable development, such as more effective financial markets or reductions in global climate change-causing emissions. Increased funding for this program has been requested in the FY 2000 budget. However, these funds cannot be used until OMB certifies that USAID can adequately manage its credit programs, as required in the FY 1998 Foreign Operations Appropriations Act. USAID is outsourcing many of its credit management activities in order to comply with this requirement.

OPIC investment guarantees also support development by promoting U.S. direct investment in developing countries. This can transfer skills and technology and create more efficient financial markets. OPIC has implemented investment funds, on-lending facilities, and bond insurance—building onto its traditional political risk insurance, lending, and guarantee products.

International lending cost estimates. Since 1992, the President's budget requests have used the same assumptions about default risk in international lending. These assumptions became less accurate given the changes in financial markets over the last six years. In addition, due to the scarcity of emerging market debt information in 1992, these assumptions were based on domestic corporate bond risk spreads, rather than international bond market data.

Beginning with the FY 1999 budget, new assumptions about default risk, as defined by the risk premia set for each country-risk category in the International Country Risk Assessment System (ICRAS), were used to estimate the cost of U.S. Government international lending. The new premia reflect the risk spreads observed on international debt market instruments from 1992 to 1997 for a variety of risk categories. These new cost estimates will continue to be updated and refined over time, given agencies' default experience and additional observation of emerging market debt data.

The "subsidy cost" of international credit programs is the government's contribution to an agency's long-term expense from extending a foreign credit, excluding administrative costs. Agency subsidy rates depend not only on the international lending risks measured by the ICRAS risk premia, but also on what fees or subsidies (such as below-market interest rates) the agencies offer with their credits, and on transaction-specific risks for credits that do not have a sovereign guarantee from the beneficiary country. Most international credit agencies charge borrowers fees that substantially offset the cost due to credit risk. The FY 2000 Budget Credit Supplement shows lending terms and subsidy rates for each international credit agency.

III. INSURANCE PROGRAMS

Deposit Insurance

Federal deposit insurance was begun in the 1930s to protect depositors against losses from failures of insured institutions. Deposit insurance also protects the Nation against widespread disruption in financial markets by reducing the probability that the failure of one financial institution will lead to a cascade of other failures. The Federal Deposit Insurance Corporation (FDIC) insures the deposits of banks and savings associations (thrifts) through separate insurance funds, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). Deposits of credit unions are insured through the National Credit Union Administration (NCUA).

Deposits are currently insured up to $100,000 per account. The FDIC insures about $2.8 trillion at over 8,900 commercial banks and about 1,700 savings institutions. The NCUA insures 11,125 credit unions with $308 billion in insured deposits.

Current Industry and Insurance Fund Conditions. The 1980s and early 1990s were a turbulent period for the bank and thrift industries, with over 1,400 bank failures and 1,100 thrift failures. The Federal Government responded with the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and the Federal Deposit Insurance Corporation Improvement Act of 1991. These reforms, combined with more favorable economic conditions, helped to restore the health of depository institutions and the deposit insurance system. No thrifts have failed in the last two years, and only three relatively small commercial banks failed during 1998. Nineteen credit unions with $15 million in assets failed during 1998. The FDIC currently classifies only 88 institutions with $8 billion in assets as "problem" institutions, compared to nearly 575 institutions with over $300 billion in assets just five years ago.

Banks have achieved record levels of earnings in recent years, which enabled the industry to recapitalize BIF in 1995 up to its statutorily-designated reserve ratio of 1.25 percent of insured deposits. As of September 30, 1998, BIF had estimated reserves of $29 billion, 1.41 percent of insured deposits.

The earnings of the thrift industry also have improved significantly in recent years. With record profits again in 1998, the industry remains in strong financial condition despite enactment of the Deposit Insurance Funds Act of 1996 (DIFA) which imposed a $4.5 billion special assessment to bring SAIF's reserves up to 1.25 percent of insured deposits. By September 30, 1998, SAIF's reserves reached an estimated $9.7 billion or 1.39 percent of insured deposits. However, on January 1, 1999, in accordance with the DIFA, the FDIC was required to transfer all funds in the SAIF above 1.25 percent to a Special Reserve. Approximately $1 billion was transferred and is available only if SAIF's reserve ratio falls below 0.625 percent.

The FDIC continues to maintain deposit insurance premiums in a range from zero for the healthiest institutions to 27 cents per $100 of deposits for the riskiest institutions. Due to the strong financial condition of the industry and the insurance funds, 95 percent of commercial banks and 92 percent of thrifts did not pay insurance premiums in 1998.

The National Credit Union Share Insurance Fund (NCUSIF) also remains strong with assets of $3.8 billion. Each insured credit union is required to deposit and maintain in the fund an amount equal to 1 percent of its member share accounts. In 1998, the income generated from the 1 percent deposit eliminated the need to assess an additional insurance premium, and after the end of the fiscal year, the NCUA Board approved a dividend to reduce the Fund's equity ratio to the statutory ceiling of 1.30 percent. This was the fourth consecutive year that the Fund paid a dividend to federally insured credit unions. The Board also waived premiums for 1999.

Although depository institutions and their Federal insurance funds currently are in good financial condition, the U. S. economy has experienced strong growth in recent years. This trend is unlikely to continue indefinitely. An economic downturn, international events or other changes in the industry could put pressure on industry profits and ultimately the deposit insurance funds. In the last quarter of fiscal 1998, some large banks reported lower-than-expected earnings from their international operations due to recent international economic crises.

Legislative, Judicial and Regulatory Developments. Recent marketplace and regulatory changes highlight the importance of financial modernization in a rapidly changing financial market. Depository institutions have faced increasing competition from non-bank providers of financial services in recent years. Legislative and regulatory changes that alter depository institution charters and/or expand the range of permissible activities for bank subsidiaries, holding companies, or affiliates will contribute to increasing integration and efficiency in the financial services sector.

In May 1997, the Administration presented to Congress its recommendations for modernizing the financial services industry and developing a common depository institution charter. The Administration's proposal would have removed Depression-era barriers to competition, preserved the safety and soundness of our Nation's depository institutions, and protected consumer rights. The proposal also would have promoted competition and efficiency within the industry, fostering the creation of new products and services and benefiting consumers. However, Congress did not pass legislation to modernize the financial services industry during the last session.

On February 25, 1998, the Supreme Court (in National Credit Union Administration v. First National Bank and AT&T Family Federal Credit Union v. First National Bank) struck down NCUA's longstanding policy of allowing credit unions to accept members from multiple fields of membership. On August 7, 1998, the President signed the Credit Union Membership Access Act, overturning the Supreme Court's ruling and allowing credit unions to accept members from multiple employers with fewer than 3,000 employees. This will allow smaller firms and associations greater opportunity to offer credit union services to their employees and members. NCUA promulgated rules to implement this legislation in January 1999, which is expected to increase the growth rate and total size of credit unions and the NCUSIF.

The Federal regulators of depository institutions (FDIC, Comptroller of the Currency, Office of Thrift Supervision, NCUA, and the Federal Reserve) are aggressively reaching out to educate banks, thrifts, and credit unions about the "Year 2000 Problem," which refers to the possibility that information technology and computer-aided systems may malfunction on January 1, 2000 due to computer programming that reads the date improperly. The regulators are conducting on-site examinations of depository institutions and some of their service providers. They are prepared to close institutions which fail to prevent disruptions to the financial and payments systems and to protect depositors. As a result of regulators' actions, the vast majority of depository institutions should be ready for the Year 2000 date change well in advance of January 1, 2000.

Pension Guarantees

The Pension Benefit Guaranty Corporation (PBGC) insures most defined-benefit pension plans sponsored by private employers. PBGC pays the benefits guaranteed by law when a company with an underfunded pension plan becomes insolvent. PBGC's exposure to claims relates to the underfunding of pension plans, that is, to any amount by which expected future benefits exceed plan assets. In the near term, its loss exposure results from financially distressed firms with underfunded plans. In the longer term, additional loss exposure results from firms that are currently healthy but become distressed, and from changes in the funding of plans and their investment results.

The number of plans insured by PBGC has been declining as small companies with defined benefit plans terminate them and shift to defined contribution pension arrangements such as 401(k) accounts. The number of plans with 1,000 or more participants has increased slightly since 1980. However, the number of active workers in defined benefit plans declined from 29 million in 1985 to fewer than 25 million in 1994. If the trend continues, by 2005 fewer than half of the participants in defined benefit plans will be active workers.

In 1998, PBGC posted a positive financial position for the third straight year after 21 years of being in a deficit position. This was due to good economic conditions and favorable investment returns. But risk remains. That risk has been reduced somewhat by steps taken by PBGC and the Congress. Since 1990, PBGC has been working to more actively to prevent and mitigate losses. Under its Early Warning Program, PBGC has negotiated more than 75 major settlements, providing more than $16 billion in new pension contributions from companies and improving pension security for 1.8 million people. In 1995, the Early Warning Program was one of the first six Federal programs to receive an award from the Ford Foundation and Harvard's Kennedy School of Government. The program also received the National Performance Review's Hammer Award.

The Retirement Protection Act of 1994 (RPA) also is strengthening PBGC's financial condition. The RPA requires companies to increase their contributions to underfunded plans over 10 to 15 years, and relates companies' premiums more fairly to PBGC's exposure by increasing the insurance premiums for those pension plans that are the most underfunded. RPA also required companies to notify participants if the plan is less than 90 percent funded, so companies have increased funding to avoid giving this notice. In addition, RPA requires privately held companies with seriously underfunded plans to give PBGC advance notice of certain transactions that potentially are harmful to their plans.

PBGC fared well in 1998. There were no major plan terminations, and investment performance was strong. Premium revenues dropped somewhat, largely reflecting lower underfunding-related premiums because of improved pension funding and a previously-enacted increase in the statutory interest rate for calculating the underfunding.

The multiemployer program guarantees pension benefits of certain unionized plans offered by several employers in an industry. The program continues to be financially strong. The Administration proposes to increase the maximum guarantee level on pension benefits paid to retirees for the first time since 1980. It would be increased from $5,580 to $12,870 per year for retirees with 30 years of service.

This budget proposes a new and simplified defined-benefit pension plan for small businesses, featuring accounts for individual participants. Unlike defined-contribution plans, the new plan guarantees a known level of annual income throughout a worker's retirement years. The new plan is designed to be fully funded virtually constantly, but also would be protected by PBGC at a reduced premium. The budget also proposes expanding the PBGC's missing participant program to multiemployer and defined-contribution plans.

Disaster Insurance

Flood Insurance

The Federal Government provides flood insurance through the National Flood Insurance Program (NFIP) administered by the Federal Emergency Management Agency (FEMA). This insurance is available to property owners living in communities that have adopted and enforced appropriate floodplain management measures. Coverage is limited to buildings and their contents. Policies for structures built before a community joined the flood insurance program are subsidized by law, while policies for structures built after a community joined the NFIP are actuarially rated.

When the Federal flood insurance program was created in the early 1970s, private insurance companies, with little information on flood risks by geographic area, had deemed the risk of floods uninsurable. In response, the NFIP provided insurance coverage, required building standards and other mitigation efforts to reduce losses, and undertook flood hazard mapping to quantify the geographic risk of flooding. The program has substantially met these goals.

The flood insurance policy base grew by approximately 10 percent from 1997 to 1998, exceeding the goal of a 5 percent increase set in 1997. The NFIP's "Cover America" initiative, which is a major marketing and advertising campaign, should continue to increase awareness of flood insurance and educate people about the risks of floods. FEMA is using three strategies to increase the number of flood insurance policies in force: lender compliance, program simplification, and expanded marketing.

The NFIP's Community Rating System (CRS) now allows policyholders in over 900 communities to receive discounts of at least 5 percent on their premiums by undertaking activities which will reduce flood losses, facilitate more accurate insurance rating, and promote public awareness of flood insurance and flood risk.

In 1997, the NFIP offered expanded insurance to cover increased costs of compliance (ICC), as authorized by the National Flood Insurance Reform Act of 1994. This separate coverage, which took effect May 1, 1997, allows repetitively flooded or substantially damaged structures to be rebuilt in accordance with existing floodplain management requirements. This will reduce the amount and cost of future flood damage and allow those structures to be actuarially rated.

In 1999 and 2000, FEMA will continue efforts to reduce future flood damage by educating Federal financial regulators about mandatory flood insurance requirements for federally related home and business loans on properties located in flood hazard areas; simplifying policy language; using mitigation insurance to allow flood victims to rebuild to code, thereby reducing future flood damage costs; and using flood insurance premium adjustments to encourage community and State mitigation activities beyond those required by the NFIP.

The President's FY 2000 budget proposes two additional reforms of this program. First, $12 million is requested to begin the process of purchasing and/or elevating insured properties that have filed four or more flood insurance claims over the last 10 years. This effort will ultimately result in lower claims payments. Second, the budget includes a proposal to charge a $15 mortgage transaction fee, to supplement a request of $5 million in discretionary funds, to support a multi-year program to update and modernize FEMA's inventory of floodplain maps. These maps are essential in developing appropriate risk-based flood insurance premium charges, will ensure that property owners have appropriate levels of insurance, and will result in a more actuarially sound program.

Crop Insurance

Subsidized Federal crop insurance administered by USDA assists farmers in managing yield shortfalls due to bad weather or other natural disasters. Private companies are unwilling to offer multi-peril crop insurance because losses tend to be correlated across geographic areas, and the companies are therefore exposed to large losses. For example, a drought will affect many farms at the same time. Damage from hail, on the other hand, tends to be more localized, and a private market for hail insurance has existed for over 100 years.

The USDA crop insurance program is a cooperative effort between the Federal Government and the private insurance industry. Private insurance companies sell and adjust crop insurance policies. The Federal Government reimburses private companies for the administrative expenses associated with extending crop insurance and reinsures the private companies for excess insurance losses on all policies. The Federal Government also subsidizes premiums for farmers.

A major program reform was enacted in 1994 to address a growing problem caused by the repeated provision of Federal ad hoc agricultural disaster payments. Participation in the crop insurance program had been kept low by the availability of post-event disaster aid to farmers from the Federal Government. Because disaster payments were no-cost grants, farmers had little incentive to purchase Federal crop insurance. The 1994 reform repealed agricultural disaster payment authorities and substituted a "catastrophic" insurance policy that indemnifies farmers at a rate roughly equal to the previous disaster payments. The catastrophic policy is free to farmers except for an administrative fee. Private companies sell and adjust the catastrophic portion of the crop insurance program, and also provide higher levels of coverage (which are also federally subsidized.) In 1995, 82 percent of eligible acres particiated in the program—140 percent over 1994. However, the 1996 Farm Bill eliminated the requirement that farmers participating in USDA's commodity programs carry crop insurance, and participation dropped in 1997 to an estimated 61 percent of eligible acres.

The 1996 Farm Bill significantly changed the commodity programs and associated price and income support for farmers. The President's signing statement for the Farm Bill stated: "The fixed payments in the bill do not adjust to changes in market conditions, which would leave farmers, and the rural communities in which they live, vulnerable to reductions in crop prices or yields. I am firmly committed to submitting legislation and working with the Congress next year to strengthen the farm safety net." To begin to address the safety net problem, the 1998 Budget proposed to expand the crop insurance program to include "revenue insurance" coverage. Revenue insurance protects farmers against lost revenue caused by low prices, low yields, or any combination of the two. Revenue insurance programs are now available in 36 states and further expansion is being studied. The Administration will work with the Congress to enact further improvements to the Crop Insurance program in 1999.

To ensure that sufficient funding is available to provide agent sales commissions, the 1998 Agricultural Research, Extension, and Education Reform Act shifted Federal funding to reimburse this private sector administrative costs shifted from discretionary spending back to mandatory spending through the Federal Crop Insurance Corporation Fund. Further, the Administration developed, and Congress adopted, a combination of program changes to reduce program costs such as reducing the reimbursement rate paid to the private insurance companies from the current 27 percent of premium to 25 percent and increasing administrative fees.

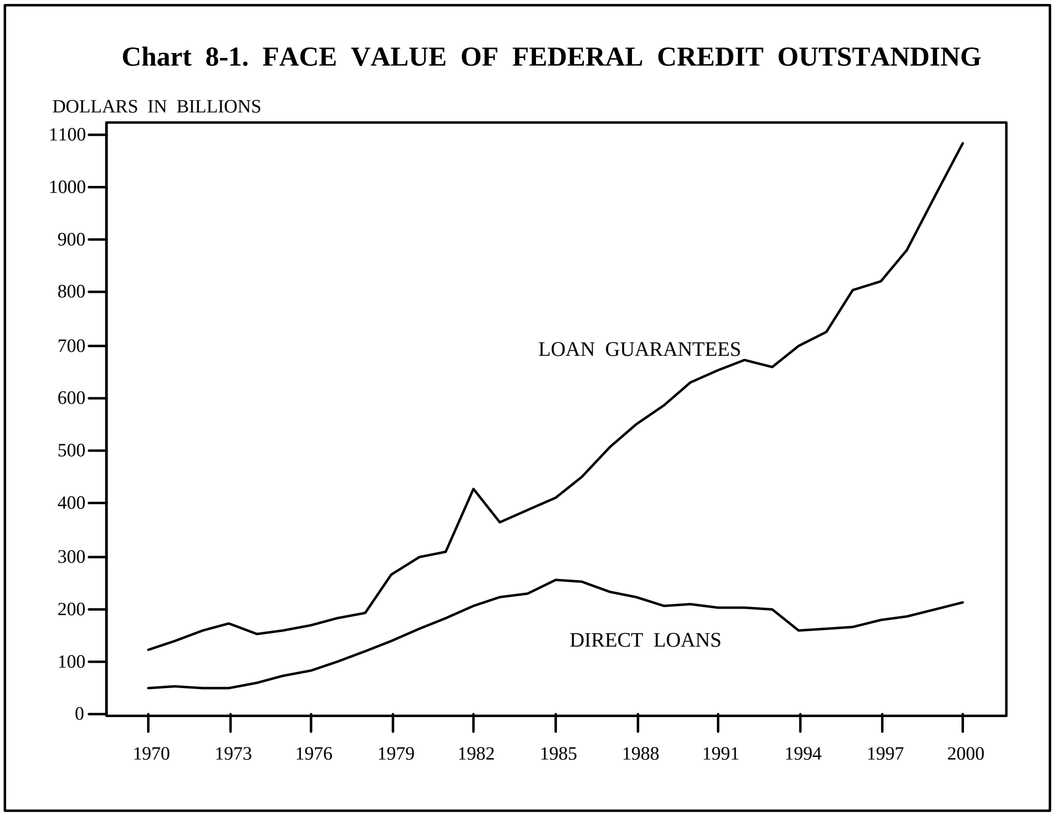

Chart 8-1. FACE VALUE OF FEDERAL CREDIT OUTSTANDING
DOLLARS IN BILLIONS
1100
1000
900
800
700
600
500
400
300
200
100
0
LOAN GUARANTEES
DIRECT LOANS
1970
1973
1976
1979
1982
1985
1988
1991
1994
1997
2000

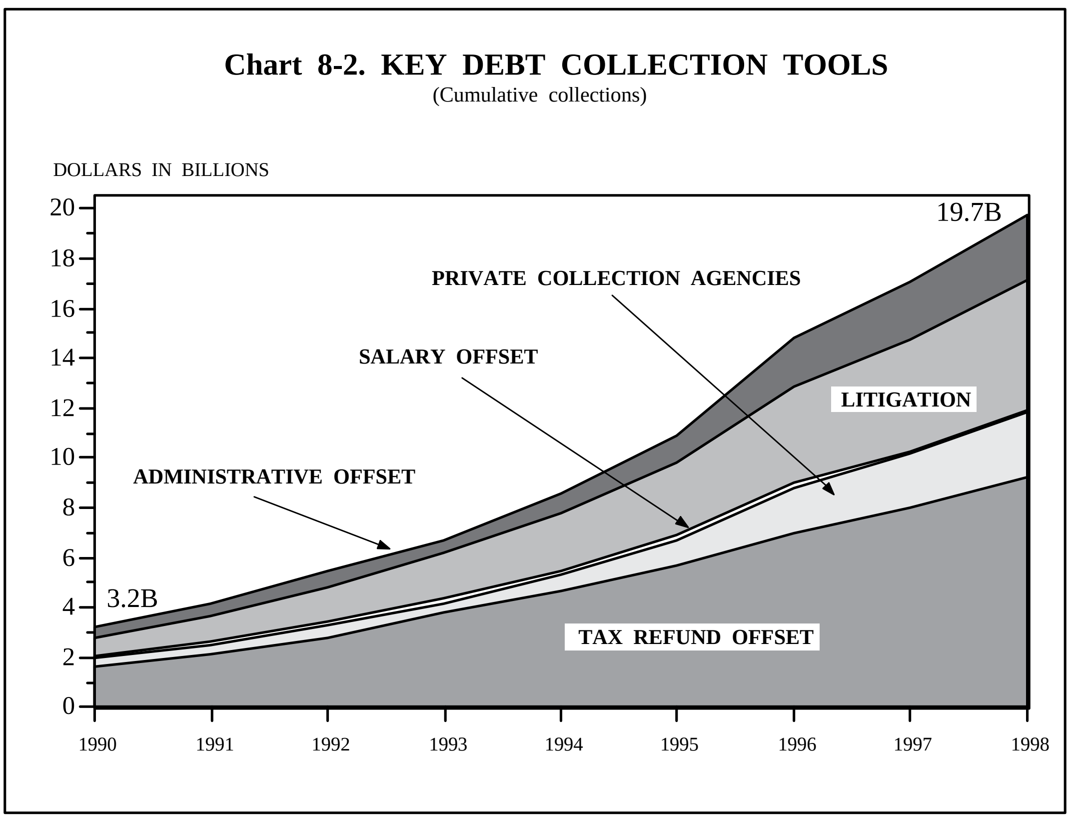

Chart 8-2. KEY DEBT COLLECTION TOOLS
(Cumulative collections)
DOLLARS IN BILLIONS
20
18
16
14
12
10
8
6
4
2
0
19.7B
3.2B
PRIVATE COLLECTION AGENCIES
SALARY OFFSET
LITIGATION
ADMINISTRATIVE OFFSET
TAX REFUND OFFSET
1990
1991
1992
1993
1994
1995
1996
1997
1998

Table 8–1. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL AND FEDERALLY ASSISTED CREDIT PROGRAMS

(in billions of dollars)

Program	Outstanding 1997	Estimated Future Costs of 1997 Outstanding [1]	Outstanding 1998	Estimated Future Costs of 1998 Outstanding [1]
Direct Loans: [2]				
Federal Student Loan Programs	35	1	49	2
Farm Service Agency (excl.CCC), Rural Development, Rural Housing	47	14	46	14
Rural Electrification Admin. and Rural Telephone Bank	30	6	30	4
Housing and Urban Development	13	3	14	2
Agency for International Development	13	6	12	6
Public Law 480	11	7	11	7
Export-Import Bank	10	2	11	3
Commodity Credit Corporation	9	1	9	2
Federal Communications Commission	7	1	7	2
Disaster Assistance	10	......	7	1
Other Direct Loans	11	1	21	5
Total Direct Loans	196	41	217	45
Loan Guarantees: [2]				
FHA Mutual Mortgage Insurance Fund	361	–1	380	–2
VA Mortgage	170	4	200	5
Federal Family Education Loan Program	96	13	101	4
FHA General/Special Risk Insurance Fund	88	7	89	7
Small Business	34	2	37	2
Export-Import Bank	22	......	22	1
International Assistance	18	1	19	1
Farm Service Agency and Rural Housing	12	......	14	......
Other Loan Guarantees	21	4	20	4
Total Loan Guarantees	822	30	882	22
Total Federal Credit	1,018	72	1,099	67
Government-Sponsored Enterprises: [3]				
Federal National Mortgage Association	862	......	989	......
Federal Home Loan Mortgage Corporation	627	......	702	......
Federal Home Loan Banks [4]	182	......	238	......
Student Loan Marketing Association [5]	......	......	......	......
Farm Credit System	59	......	60	......
Total Government-Sponsored Enterprises	1,730	......	1,989	......
Total	2,748	72	3,088	67

[1] Direct loan future costs are the financing account allowance for subsidy cost and the liquidating account allowance for estimated uncollectible principal and interest. Loan guarantee future costs are estimated liabilites for loan guarantees.

[2] Excludes loans and guarantees by deposit insurance agencies and programs not included under credit reform, such as CCC farm supports. Defaulted guaranteed loans which become loans receivable are accounted for as direct loans.

[3] Net of purchases of federally guaranteed loans.

[4] The lending by the Federal Home Loans Banks measures their advances to member thrift and other financial institutions. In addition, their investment in private financial instruments at the end of 1998 was $135 billion, including federally guaranteed securities and GSE securities.

[5] The face value and Federal costs of Federal Family Education Loans in Student Loan Marketing Association's portfolio are included in the account of that program under guaranteed loans above.

Table 8–2. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992—1998 [1]

(In millions of dollars)

Program	1994	1995	1996	1997	1998	1999
Direct Loans:						
Agriculture credit insurance fund	–72	28	2	–31	23	....
Agricultural conservation	–1	....	....	....	....	....
Rural electrification and telephone loans	*	61	–37	84	....	–79
Rural telephone bank	1	....	....	10	....	–12
Rural housing insurance fund	2	152	46	–73	....	82
Rural economic development loans	....	....	....	1	....	–2
Rural development loan program	....	1	....	....	....	–7
Rural community advancement program [2]	....	....	....	8	....	4
P.L. 480 Title I loan program	....	....	–37	–1	....	....
Federal direct student loans	....	....	3	–83	172	–361
Bureau of Reclamation direct loans	....	....	....	....	....	3
BIA-Indian direct loans	....	....	....	....	....	18
High priority corridor loans	....	....	....	....	–3	....
Veterans housing benefit program fund	–39	30	76	–72	465	–22
Foreign military financing	....	....	....	13	4	2
SBA-Disaster loans	....	....	....	....	–193	–227
Export-Import Bank direct loans	–28	–16	37	....	....	....
Spectrum auction program	....	....	....	....	4,592	....
Loan Guarantees:						
Agriculture credit insurance fund	5	14	12	–51	96	....
Commodity Credit Corporation export guarantees	3	103	–426	343	....	....
Rural development insurance fund	49	....	....	–3	....	....
Rural housing insurance fund	2	10	7	–10	....	122
Rural community advancement program [2]	....	....	....	–10	....	49
P.L. 480 Title I Food for Progress credits	....	84	–38	....	....	....
Fisheries finance, guaranteed loans	....	....	....	....	–2	....
Federal family education (formerly GSL): [3]						
Technical reestimate	97	421	60	....	....	63
Volume reestimate	....	....	535	99	....	–216
FHA-Mutual mortgage	....	....	....	–340	....	1,264
FHA-General and special risk	–175	....	–110	–25	743	....
BIA-Indian guaranteed loans	....	....	....	31	....	–17
Maritime guaranteed loans (Title XI)	....	....	....	....	....	–85
Veterans housing benefit fund guarantees	–447	167	334	–706	38	34
AID housing guaranty	–2	–1	–7	....	–14	....
SBA-Business loans	....	....	257	–16	–279	–545
Export-Import Bank guarantees	–11	–59	13	....	....	....
Total	–616	995	727	–832	5,642	68

* $500 thousand or less.

[1] Additional information on credit reform subsidy rates is contained in the Federal Credit Supplement to the budget for 2000.

[2] Includes rural water and waste disposal, rural community facilities, and rural business and industry programs.

[3] Volume reestimates in mandatory programs represent a change in volume of loans disbursed in the prior years. These estimates are the result of guarantee programs where data from loan issuers on actual disbursements of loans are not received until after the close of the fiscal year.

Table 8–3. ESTIMATED 2000 SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS FOR DIRECT LOANS [1]

(in millions of dollars)

Agency and Program	Weighted average subsidy as a percentage of disbursements	Subsidy budget authority	Estimated loan levels
Agriculture:			
Agricultural credit insurance fund	4.86	38	782
Rural community advancement program	5.99	72	1,200
Rural electrification and telecommunications loans	0.60	9	1,470
Rural telephone bank	1.88	3	175
Distance learning and telemedicine program	0.35	1	200
Rural housing insurance fund	12.24	156	1,274
Rural development loan fund	31.95	33	102
Rural economic development loans	23.02	3	15
P.L. 480	82.46	114	138
Commerce:			
Fisheries finance	1.00	1	56
Education:			
Federal direct student loan program [2]	–5.16	–918	17,783
Housing and Urban Development:			
FHA-mutual mortgage insurance	....	....	50
FHA-General and special risk	....	....	50
Interior:			
Bureau of reclamation loan	27.91	12	43
State:			
Repatriation loans	80.00	1	1
Transportation:			
Minority business resource center	11.00	2	14
Federal-aid highways	9.00	79	884
Treasury:			
Community development financial institutions fund	31.05	17	53
Veterans Affairs:			
Miscellaneous veterans housing loans	7.72	....	21
Miscellaneous Veterans Programs loan fund	35.02	....	3
Veterans housing benefit program fund	10.79	70	648
Federal Emergency Management Agency:			
Disaster assistance direct loan	4.15	2	25
International Assistance Programs:			
Overseas private investment corporation	11.00	14	130
Small Business Administration:			
Disaster loans	22.20	39	176
Business loans	8.54	4	47
Other Independent Agencies:			
Export Import Bank loans	1.90	32	1,687
Total	–0.57	–216	27,027

[1] Additional information on credit subsidy rates is contained in the Federal Credit Supplement.
[2] Excludes savings from proposed modifications.

Table 8–4. ESTIMATED 2000 SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS FOR LOAN GUARANTEES [1]

(in millions of dollars)

Agency and Program	Weighted average subsidy as a percentage of disbursements	Subsidy budget authority	Estimated loan levels
Agriculture:			
Agricultural credit insurance fund	1.57	35	2,226
Commodity Credit Corporation export loans	9.76	440	4,506
Rural community advancement program	2.28	29	1,285
Rural housing insurance fund	0.56	20	3,400
Defense—Military:			
Defense, Family Housing Improvement Fund	4.70	33	697
Education:			
Federal family education loan [2]	12.12	3,371	27,780
Health and Human Services:			
Health Resources and Services	2.41	4	51
Housing and Urban Development:			
Indian housing loan guarantee fund	8.13	6	72
Native American housing block grant	11.07	5	45
Community development loan guarantees	2.30	29	1,261
America's private investment companies	3.60	36	1,000
FHA-mutual mortgage insurance	–1.99	–2,048	120,000
FHA-General and special risk [3]	0.48	....	18,100
Interior:			
Indian guaranteed loan	7.54	4	60
Transportation:			
Maritime guaranteed loan (Title XI)	5.01	6	120
Veterans Affairs:			
Miscellaneous veterans housing loans	48.25	3	7
Veterans housing benefit program fund	0.68	212	31,237
International Assistance Programs:			
Micro and small enterprise development	4.94	1	30
Urban and environmental credit	1.15	3	26
Development credit authority	6.50	13	200
Overseas private investment corporation	1.00	10	1,000
Small Business Administration:			
Business loans	1.13	144	16,159
Other Independent Agencies:			
Export Import Bank loans	5.84	807	13,825
Presidio Trust	0.52	1	200
Total	1.47	3,165	243,287
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS			
GNMA:			
Guarantees of mortgage-backed securities loan guarantee	–0.33	–422	200,000

[1] Additional information on credit subsidy rates is contained in the Federal Credit Supplement.
[2] Excludes savings from proposed modifications.
[3] Subsidy will be financed by $153 million of unobligated balances.

Table 8–5. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES

(In billions of dollars)

	Actual				Estimate	
	1995	1996	1997	1998	1999	2000
Direct Loans:						
Obligations	30.9	23.4	33.6	28.8	38.5	37.9
Disbursements	22.0	23.6	32.2	28.7	39.6	36.2
Subsidy budget authority [1]	2.6	1.8	2.4	6.5	1.1	–0.2
Loan Guarantees: [2]						
Commitments	138.5	175.4	172.3	218.4	216.5	237.6
Lender Disbursements	117.9	143.9	144.7	199.5	192.9	203.0
Subsidy budget authority [1]	4.6	4.0	3.6	2.6	4.3	3.2

[1] Excludes subsidy reestimates made prior to 1998, and student loan modifications proposed for 2000.
[2] GNMA secondary guarantees of loans that are guaranteed by FHA, VA and RHS are excluded from the totals to avoid double-counting.

Table 8–6. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	1998 actual	1999 estimate	2000 estimate	1998 actual	1999 estimate	2000 estimate
DIRECT LOAN WRITEOFFS						
Agriculture:						
Agricultural credit insurance fund	320	327	330	3.39	3.61	3.96
Rural Development Insurance Fund	4	3	3	0.10	0.08	0.08
Rural Housing Insurance Fund	4	30	29	0.01	0.10	0.10
Rural development loans	1	1	1	0.34	0.32	0.29
Commerce:						
Economic development loans	....	1	1	....	1.96	2.22
Education:						
Student financial assistance	7	9	8	5.10	6.18	4.87
Federal direct student loan program	1	2	5	....	....	....
Housing and Urban Development:						
Revolving fund (liquidating programs)	5	....	....	2.27	....	....
FHA—Mutual mortgage insurance	....	1	2	....	6.89	6.55
Interior:						
BIA—Revolving funds for loans	2	5	4	2.59	6.84	6.06
State:						
Repatriation loans	1	1	1	25.00	25.00	25.00
Veterans Affairs:						
Veterans housing benefit program	49	49	24	3.38	3.14	1.61
Federal Emergency Management Agency:						
FEMA—Disaster Assistance	1	....	....	0.54	....	....
Small Business Administration:						
Disaster loans	16	23	18	0.23	0.32	0.25
Business loans	100	54	20	9.18	7.44	6.25
Other Independent Agencies:						
Spectrum auction program	2,539	....	....	37.39	....	....
Tennessee Valley Authority	2	1	1	4.65	2.06	1.73
Total, direct loan writeoffs	3,052	507	447	1.64	0.26	0.21
GUARANTEED LOAN TERMINATIONS FOR DEFAULT						
Agriculture:						
Agricultural credit insurance fund	66	87	101	0.93	1.20	1.31
CCC Export guarantee programs	78	402	465	1.80	8.80	9.94
Rural community advancement program	16	33	33	0.79	1.31	0.94
Rural Development Insurance Fund	54	32	19	23.78	17.53	17.11
Rural Housing Insurance Fund	27	44	61	0.37	0.51	0.54
Education:						
Federal family education	4,095	3,390	3,734	4.07	3.28	3.44

Table 8–6. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS—Continued

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	1998 actual	1999 estimate	2000 estimate	1998 actual	1999 estimate	2000 estimate
Health and Human Services:						
Health education assistance loan program	31	49	48	1.04	1.67	1.70
Housing and Urban Development:						
FHA—Mutual mortgage insurance	5,310	6,527	5,581	1.39	1.59	1.19
FHA—General and special risk	1,229	1,561	2,020	1.37	1.65	1.94
Transportation:						
Federal ship financing fund	....	34	....	....	9.71	....
Veterans Affairs:						
Veterans housing benefit program	2,544	3,424	3,682	1.27	1.63	1.61
International Assistance Programs:						
Foreign military financing	2	1	....	0.03	0.01	....
Microenterprise and other development	–1	1	2	–3.22	2.50	3.47
AID—Housing and other credit guaranty programs	39	25	12	1.74	1.09	0.51
Overseas Private Investment Corporation	7	63	66	0.25	2.14	1.92
Small Business Administration:						
Business loans	492	486	516	1.31	1.24	1.21
Other Independent Agencies:						
Export-Import Bank	330	237	421	1.51	1.05	1.82
Total, guaranteed loan terminations for default	14,319	16,396	16,761	1.00	1.11	1.05
Total, direct loan writeoffs and guaranteed loan terminations	17,371	16,903	17,208	1.07	1.01	0.96
ADDENDUM: WRITEOFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE						
Education:						
Federal family education	515	455	463	2.93	2.52	2.42
Health and Human Services:						
Health education assistance loan program	20	20	20	3.80	3.73	3.61
Housing and Urban Development:						
FHA—Mutual mortgage insurance	53	34	1	8.26	10.39	5.40
FHA—General and special risk	224	133	319	9.23	5.20	11.70
Veterans Affairs:						
Veterans housing benefit program	567	541	544	73.06	71.84	75.60
Small Business Administration:						
Business loans	195	213	218	8.47	10.75	13.47
Total, writeoffs of loans receivable	1,574	1,396	1,565	5.04	4.47	4.91

[1] Average of loans outstanding for the year.

Table 8–7. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS [1]

(In millions of dollars)

Agency and Program	1998 Actual	Estimate	
		1999	2000
DIRECT LOAN OBLIGATIONS			
Agriculture: [2]			
Agricultural credit insurance fund	803	946	782
Distance learning and telemedicine	5	150	200
Rural electrification and telecommunications	1,420	1,562	1,070
Rural electrification and telecommunications	....	....	400
Rural telephone bank	175	158	175
Rural water and waste disposal direct loans	752	724	900
Rural housing insurance fund	1,230	1,158	1,275
Rural community facility direct loans	206	169	250
Rural economic development	25	15	15
Rural development loan fund	35	33	102
Rural business and industry direct loans	50	50	50
P.L. 480 Direct credit	228	965	138
Housing and Urban Development:			
FHA-General and special risk	120	120	50
FHA-Mutual mortgage insurance	200	100	50
Interior:			
Bureau of Reclamation	31	38	43
State:			
Repatriation loans	1	1	1
Transportation:			
Minority business resource center	15	14	14
Transportation infrastructure finance and innovation program	....	1,600	1,800
Treasury:			
Community development financial institutions fund	32	32	53
Federal Emergency Management Agency:			
Disaster assistance	25	30	25
International Assistance Programs:			
Foreign military financing	100	167	....
Military debt reduction	5	....	....
Total, limitations on direct loan obligations	5,458	8,032	7,393
LOAN GUARANTEE COMMITMENTS			
Agriculture: [2]			
Agricultural credit insurance fund	1,653	1,880	2,227
Rural water and waste water disposal guaranteed loans	75	75	75
Rural housing insurance fund	3,040	3,075	3,300
Rural housing insurance fund	....	....	100
Rural community facility guaranteed loans	81	210	210
Rural business and industry guaranteed loans	1,099	1,078	1,000
Department of Defense:			
Defense export loan guarantee program	15,000	15,000	15,000
Health and Human Services:			
Health education assistance loans	85	....	....
Health center	160	151	51
Housing and Urban Development:			
Indian housing loan guarantee fund	67	69	72
Title VI Indian Federal guarantees	45	54	45
Community development loan guarantees	1,261	1,261	1,261
America's private investment companies	....	....	1,000
FHA-General and special risk	17,400	18,100	18,100
FHA-Loan guarantee recovery fund	10	8	....
FHA-Mutual mortgage insurance	110,000	110,000	120,000
Interior:			
Indian guaranteed loans	35	60	60
Transportation:			
Maritime guaranteed loan (Title XI)	1,000	120	120

Table 8–7. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS [1]—Continued

(In millions of dollars)

Agency and Program	1998 Actual	Estimate	
		1999	2000
International Assistance Programs:			
Overseas private investment corporation	1,800	1,750	1,100
Small Business Administration:			
Business loans	13,000	13,500	14,800
Other Independent Agencies:			
Presidio trust	....	....	200
Total, limitations on loan guarantee commitments	150,811	151,391	163,721
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS			
GNMA:			
Guarantees of mortgage-backed securities	130,000	150,000	200,000
Total, limitations on secondary guaranteed loan commitments	130,000	150,000	200,000

[1] Data represents loan level limitations enacted or proposed to be enacted in appropriation acts. For information on actual and estimated loan levels supportable by new subsidy budget authority requested, see Tables 8–3 and 8–4.

[2] Limitations for Agriculture are overridden by a general provision in the appropriations act.

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Department of Agriculture			
Farm Service Agency			
Agricultural credit insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	2	2
Change in outstandings	–1,010	–1,007	–998
Outstandings	6,699	5,692	4,694
Agricultural credit insurance fund direct loan financing account:			
Obligations	796	999	782
Loan disbursements	816	859	867
Change in outstandings	457	289	236
Outstandings	2,715	3,004	3,240
Commodity credit corporation fund:			
Obligations	7,189	8,813	10,524
Loan disbursements	7,189	8,813	10,524
Change in outstandings	864	–393	127
Outstandings	2,633	2,240	2,367
Rural Utilities Service			
Rural communication development fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–1	....
Outstandings	8	7	7
Distance learning and telemedicine direct loan financing account:			
Obligations	5	150	200
Loan disbursements	....	47	136
Change in outstandings	....	44	122
Outstandings	....	44	166
Rural development insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	4	3	....
Change in outstandings	–327	–305	–284
Outstandings	3,808	3,503	3,219
Rural electrification and telecommunications direct loan financing account:			
Obligations	1,322	1,562	1,470
Loan disbursements	942	1,549	1,265
Change in outstandings	800	1,463	1,163
Outstandings	5,106	6,569	7,732
Rural telephone bank direct loan financing account:			
Obligations	168	158	175
Loan disbursements	34	52	53
Change in outstandings	29	46	45
Outstandings	232	278	323
Rural water and waste disposal direct loans financing account:			
Obligations	786	730	900
Loan disbursements	613	937	751
Change in outstandings	547	896	700
Outstandings	2,807	3,703	4,403
Rural electrification and telecommunications liquidating account:			
Obligations	....	....	....
Loan disbursements	34	21	8
Change in outstandings	–1,170	–1,865	–2,949
Outstandings	27,076	25,211	22,262
Rural telephone bank liquidating account:			
Obligations	....	....	....
Loan disbursements	21	27	24
Change in outstandings	–92	–93	–96
Outstandings	1,172	1,079	983

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Rural Housing Service			
Rural housing insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	6	....	....
Change in outstandings	–1,243	–1,192	–1,143
Outstandings	19,704	18,512	17,369
Rural housing insurance fund direct loan financing account:			
Obligations	1,226	1,158	1,275
Loan disbursements	1,113	1,215	1,245
Change in outstandings	844	960	924
Outstandings	9,411	10,371	11,295
Rural community facility direct loans financing account:			
Obligations	211	171	250
Loan disbursements	137	193	217
Change in outstandings	113	176	195
Outstandings	606	782	977
Rural Business—Cooperative Service			
Rural economic development loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	–1
Outstandings	6	6	5
Rural economic development direct loan financing account:			
Obligations	25	15	15
Loan disbursements	16	22	17
Change in outstandings	8	15	7
Outstandings	50	65	72
Rural development loan fund direct loan financing account:			
Obligations	35	33	102
Loan disbursements	40	48	42
Change in outstandings	36	44	36
Outstandings	209	253	289
Rural business and industry direct loans financing account:			
Obligations	21	50	50
Loan disbursements	16	22	40
Change in outstandings	16	21	38
Outstandings	19	40	78
Rural development loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	1	1	1
Change in outstandings	–5	–4	–3
Outstandings	77	73	70
Foreign Agricultural Service			
Expenses, Public Law 480, foreign assistance programs, Agriculture liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–300	–369	–363
Outstandings	9,146	8,777	8,414
P.L. 480 Direct credit financing account:			
Obligations	228	965	138
Loan disbursements	217	986	167
Change in outstandings	158	983	162
Outstandings	1,529	2,512	2,674
P.L. 480 Title I Food for Progress Credits, financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	508	508	508

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate 1999	Estimate 2000
Debt reduction—financing account:			
Obligations	....	....	....
Loan disbursements	....	142	80
Change in outstandings	....	140	78
Outstandings	63	203	281
Department of Commerce			
Economic Development Administration			
Economic development revolving fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–6	–6
Outstandings	54	48	42
National Oceanic and Atmospheric Administration			
Fisheries finance, direct loan financing account:			
Obligations	34	229	56
Loan disbursements	27	251	56
Change in outstandings	26	247	52
Outstandings	26	273	325
Department of Defense—Military			
Operation and Maintenance			
Defense vessel transfer program financing account:			
Obligations	....	172	238
Loan disbursements	....	172	238
Change in outstandings	....	155	156
Outstandings	....	155	311
Family Housing			
Department of Defense, Family Housing Improvement, Direct Loan Financing Account:			
Obligations	....	....	11
Loan disbursements	....	....	11
Change in outstandings	....	....	11
Outstandings	....	....	11
Department of Education			
Office of Postsecondary Education			
Student financial assistance:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	17	20
Outstandings	137	154	174
College housing and academic facilities loans liquidating account:			
Obligations	....	....	....
Loan disbursements	4	....	....
Change in outstandings	–48	–35	–32
Outstandings	566	531	499
College housing and academic facilities loans financing account:			
Obligations	....	....	....
Loan disbursements	1	1	1
Change in outstandings	1	1	1
Outstandings	21	22	23
Federal direct student loan program, financing account:			
Obligations	13,861	17,853	17,868
Loan disbursements	12,140	16,117	16,014
Change in outstandings	10,458	14,691	13,690
Outstandings	31,670	46,361	60,051

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate 1999	Estimate 2000
Department of Energy			
Power Marketing Administration			
Bonneville Power Administration fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	2	2	2
Department of Health and Human Services			
Health Resources and Services Administration			
Medical facilities guarantee and loan fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–7	–7	–10
Outstandings	17	10	....
Department of Housing and Urban Development			
Public and Indian Housing Programs			
Low-rent public housing—loans and other expenses:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–70	–59	–45
Outstandings	1,492	1,433	1,388
Community Planning and Development			
Revolving fund (liquidating programs):			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–51	–40	–35
Outstandings	220	180	145
Community development loan guarantees liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–6	–4	–4
Outstandings	30	26	22
Housing Programs			
Nonprofit sponsor assistance liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	1	1	1
Flexible Subsidy Fund:			
Obligations	....	....	....
Loan disbursements	35	21	7
Change in outstandings	26	17	3
Outstandings	769	786	789
FHA-Mutual mortgage and cooperative housing insurance funds liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	–5	....
Outstandings	5	....	....
FHA-General and special risk insurance funds liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–6	–7	–7
Outstandings	72	65	58
FHA-General and special risk direct loan financing account:			
Obligations	1	20	50
Loan disbursements	1	20	50
Change in outstandings	1	18	45
Outstandings	1	19	64

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Housing for the elderly or handicapped fund liquidating account:			
Obligations	....	....	....
Loan disbursements	5	....	....
Change in outstandings	–84	–88	–87
Outstandings	8,144	8,056	7,969
FHA-Mutual mortgage insurance direct loan financing account:			
Obligations	5	50	50
Loan disbursements	4	40	40
Change in outstandings	–1	22	15
Outstandings	1	23	38
Government National Mortgage Association			
Guarantees of mortgage-backed securities liquidating account:			
Obligations	....	....	....
Loan disbursements	129	127	106
Change in outstandings	26	65	42
Outstandings	358	423	465
Department of the Interior			
Bureau of Reclamation			
Bureau of reclamation loan liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–3	–3	–3
Outstandings	69	66	63
Bureau of Reclamation direct loan financing account:			
Obligations	30	38	43
Loan disbursements	39	35	46
Change in outstandings	39	35	45
Outstandings	120	155	200
National Park Service			
Construction and major maintenance:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	6	6	6
Bureau of Indian Affairs			
Revolving fund for loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–6	–6	–4
Outstandings	47	41	37
Indian direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–2	–2	–2
Outstandings	30	28	26
Insular Affairs			
Assistance to territories:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–1	–2
Outstandings	18	17	15
Department of State			
Administration of Foreign Affairs			
Repatriation loans financing account:			
Obligations	1	1	1
Loan disbursements	1	1	1
Change in outstandings	....	....	....
Outstandings	4	4	4

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Department of Transportation			
Office of the Secretary			
Minority business resource center direct loan financing account:			
Obligations	6	8	14
Loan disbursements	4	8	14
Change in outstandings	1	–3	3
Outstandings	7	4	7
Federal Highway Administration			
Right-of-way revolving fund liquidating account:			
Obligations	....	....	....
Loan disbursements	7	20	20
Change in outstandings	–2	–2	–4
Outstandings	182	180	176
Transportation infrastructure finance and innovation program direct loan financing account:			
Obligations	....	811	884
Loan disbursements	....	608	866
Change in outstandings	....	608	866
Outstandings	....	608	1,474
Federal Railroad Administration			
Amtrak corridor improvement loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	....	–1
Outstandings	5	5	4
Alameda Corridor direct loan financing account:			
Obligations	....	....	....
Loan disbursements	140	120	....
Change in outstandings	140	120	....
Outstandings	280	400	400
Railroad rehabilitation and improvement liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–3	–5
Outstandings	56	53	48
Railroad rehabilitation and improvement direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	4	4	4
Department of the Treasury			
Departmental Offices			
Community development financial institutions fund direct loan financing account:			
Obligations	7	5	16
Loan disbursements	1	5	9
Change in outstandings	1	5	9
Outstandings	5	10	19
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans Housing Benefit Program Fund Liquidating Account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–94	–109	–56
Outstandings	326	217	161
Veterans Housing Benefit Program Fund Direct Loan Financing Account:			
Obligations	1,339	1,947	648
Loan disbursements	1,339	1,947	648
Change in outstandings	130	327	–300
Outstandings	1,122	1,449	1,149

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate 1999	Estimate 2000
Miscellaneous veterans housing loans direct loan financing account:			
Obligations	3	11	22
Loan disbursements	3	10	22
Change in outstandings	2	10	21
Outstandings	16	26	47
Miscellaneous veterans programs loan fund direct loan financing account:			
Obligations	2	2	3
Loan disbursements	2	2	2
Change in outstandings	....	....	....
Outstandings	....	....	....
Miscellaneous veterans programs loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	1	1	1
Environmental Protection Agency			
Abatement, control, and compliance direct loan liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–9	–9	–8
Outstandings	76	67	59
Abatement, control, and compliance direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–5	–5
Outstandings	56	51	46
Federal Emergency Management Agency			
Disaster assistance direct loan liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	37	37	37
Disaster assistance direct loan financing account:			
Obligations	....	36	25
Loan disbursements	24	36	25
Change in outstandings	20	34	23
Outstandings	147	181	204
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Obligations	....	....	....
Loan disbursements	9	8	8
Change in outstandings	–762	–816	–495
Outstandings	5,392	4,576	4,081
Foreign military financing direct loan financing account:			
Obligations	100	167	....
Loan disbursements	291	433	470
Change in outstandings	131	171	157
Outstandings	1,582	1,753	1,910
Military debt reduction financing account:			
Obligations	5	....	....
Loan disbursements	5	100	....
Change in outstandings	5	100	....
Outstandings	9	109	109
Multilateral Assistance			
International organizations and programs:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–2	–2	–2
Outstandings	30	28	26

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Agency for International Development			
Economic assistance loans—liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–729	–547	–515
Outstandings	11,435	10,888	10,373
Debt reduction, financing account:			
Obligations	....	....	....
Loan disbursements	....	53	....
Change in outstandings	–57	–4	–57
Outstandings	282	278	221
Microenterprise and small enterprise development credit direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	....	....
Outstandings	1	1	1
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–15	–8	–9
Outstandings	22	14	5
Overseas private investment corporation direct loan financing account:			
Obligations	76	136	130
Loan disbursements	26	60	70
Change in outstandings	–14	48	56
Outstandings	69	117	173
Small Business Administration			
Business direct loan financing account:			
Obligations	10	40	60
Loan disbursements	7	30	30
Change in outstandings	–10	9	16
Outstandings	99	108	124
Disaster direct loan financing account:			
Obligations	639	814	221
Loan disbursements	595	1,009	770
Change in outstandings	–25	543	38
Outstandings	5,605	6,148	6,186
Disaster loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–203	–213	–410
Outstandings	1,254	1,041	631
Business loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	55	62	41
Change in outstandings	–258	–737	–99
Outstandings	990	253	154
Other Independent Agencies			
District of Columbia Financing			
Loans to the District of Columbia for capital projects:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–12	–12	–12
Outstandings	39	27	15
Repayable advances to the District of Columbia direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–223	....	....
Outstandings	....	....	....

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Export-Import Bank of the United States			
Export-Import Bank of the United States liquidating account:			
Obligations	....	....	....
Loan disbursements	2	....	....
Change in outstandings	–667	–2,526	–482
Outstandings	5,721	3,195	2,713
Debt reduction financing account:			
Obligations	....	....	....
Loan disbursements	514	2,059	118
Change in outstandings	514	2,059	118
Outstandings	514	2,573	2,691
Export-Import Bank direct loan financing account:			
Obligations	103	1,286	1,687
Loan disbursements	1,498	1,288	1,092
Change in outstandings	1,208	841	471
Outstandings	5,027	5,868	6,339
Farm Credit System Financial Assistance Corporation			
Financial assistance corporation assistance fund, liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–199	–33	–17
Outstandings	933	900	883
Federal Communications Commission			
Spectrum auction direct loan financing account:			
Obligations	594	....	....
Loan disbursements	594	....	....
Change in outstandings	–2,071	....	–10
Outstandings	6,789	6,789	6,779
Bank Insurance			
Bank insurance fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	100	100	100
FSLIC Resolution			
FSLIC resolution fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–32	....	....
Outstandings	63	63	63
National Credit Union Administration			
Community development credit union revolving loan fund:			
Obligations	....	....	....
Loan disbursements	3	4	3
Change in outstandings	1	2	....
Outstandings	7	9	9
Tennessee Valley Authority			
Tennessee Valley Authority fund:			
Obligations	16	22	22
Loan disbursements	16	22	22
Change in outstandings	2	11	7
Outstandings	43	54	61
Subtotal, direct loan transactions:			
Obligations	28,844	38,452	37,930
Loan disbursements	28,720	39,608	36,239
Change in outstandings	6,769	14,712	11,137
Outstandings	185,790	200,502	211,639

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
ADDENDUM: DEFAULTED GUARANTEED LOANS THAT RESULT IN A LOAN RECEIVABLE			
Department of Agriculture			
Farm Service Agency			
Commodity credit corporation export guarantee financing account:			
Claim payments	72	402	465
Change in outstandings	69	394	450
Outstandings	1,375	1,769	2,219
Commodity credit corporation guaranteed loans liquidating account:			
Claim payments	6	....	....
Change in outstandings	–76	–133	–80
Outstandings	4,923	4,790	4,710
Department of Commerce			
National Oceanic and Atmospheric Administration			
Federal ship financing fund, fishing vessels liquidating account:			
Claim payments	....	....	....
Change in outstandings	....	....	....
Outstandings	24	24	24
Department of Education			
Office of Postsecondary Education			
Federal family education loan program, financing account:			
Claim payments	2,844	2,835	3,263
Change in outstandings	1,597	1,891	1,971
Outstandings	6,083	7,974	9,945
Federal family education loan liquidating account:			
Claim payments	953	287	188
Change in outstandings	–544	–867	–910
Outstandings	11,458	10,591	9,681
Department of Health and Human Services			
Health Resources and Services Administration			
Health education assistance loans financing account:			
Claim payments	14	15	20
Change in outstandings	14	13	18
Outstandings	32	45	63
Health education assistance loans liquidating account:			
Claim payments	29	40	34
Change in outstandings	24	6	....
Outstandings	494	500	500
Department of Housing and Urban Development			
Housing Programs			
FHA-Mutual mortgage and cooperative housing insurance funds liquidating account:			
Claim payments	....	3	2
Change in outstandings	6	–290	1
Outstandings	294	4	5
FHA-General and special risk insurance funds liquidating account:			
Claim payments	268	313	324
Change in outstandings	–166	–45	–298
Outstandings	2,044	1,999	1,701
FHA-General and special risk guaranteed loan financing account:			
Claim payments	197	381	472
Change in outstandings	171	310	369
Outstandings	381	691	1,060
FHA-Mutual mortgage insurance guaranteed loan financing account:			
Claim payments	30	6	11
Change in outstandings	62	–338	10
Outstandings	347	9	19

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate 1999	Estimate 2000
Department of the Interior			
Bureau of Indian Affairs			
Indian loan guaranty and insurance fund liquidating account:			
Claim payments	....	....	....
Change in outstandings	....	....	....
Outstandings	40	40	40
Indian guaranteed loan financing account:			
Claim payments	1	3	3
Change in outstandings	1	3	3
Outstandings	44	47	50
Department of Transportation			
Maritime Administration			
Federal ship financing fund liquidating account:			
Claim payments	....	34	....
Change in outstandings	....	19	–9
Outstandings	46	65	56
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans Housing Benefit Program Fund Liquidating Account:			
Claim payments	121	103	88
Change in outstandings	–45	–32	–27
Outstandings	620	588	561
Veterans Housing Benefit Program Fund Guaranteed Loan Financing Account:			
Claim payments	546	439	475
Change in outstandings	53	–14	6
Outstandings	156	142	148
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Claim payments	26	11	25
Change in outstandings	....	5	25
Outstandings	1	6	31
Agency for International Development			
Housing and other credit guaranty programs liquidating account:			
Claim payments	56	31	15
Change in outstandings	–2	–400	–1
Outstandings	485	85	84
Microenterprise and small enterprise development guaranteed loan financing account:			
Claim payments	1	1	2
Change in outstandings	1	1	2
Outstandings	1	2	4
Overseas Private Investment Corporation			
Overseas private investment corporation guaranteed loan financing account:			
Claim payments	8	50	50
Change in outstandings	3	35	30
Outstandings	21	56	86
Small Business Administration			
Pollution control equipment fund liquidating account:			
Claim payments	....	....	....
Change in outstandings	–1	....	–1
Outstandings	45	45	44
Business guaranteed loan financing account:			
Claim payments	416	425	475
Change in outstandings	–36	–700	–128
Outstandings	834	134	6

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Business loan fund liquidating account:			
Claim payments	76	61	41
Change in outstandings	76	61	41
Outstandings	1,466	1,527	1,568
Subtotal, defaulted guaranteed loans that result in a loan receivable:			
Claim payments	5,664	5,440	5,953
Change in outstandings	1,207	–81	1,472
Outstandings	31,214	31,133	32,605
Total:			
Obligations	28,844	38,452	37,930
Loan disbursements	34,384	45,048	42,192
Change in outstandings	7,976	14,631	12,609
Outstandings	217,004	231,635	244,244

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Department of Agriculture			
Farm Service Agency			
Agricultural credit insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–218	–213	–212
Outstandings	776	563	351
Agricultural credit insurance fund guaranteed loan financing account:			
Commitments	1,653	1,880	2,227
New guaranteed loans	1,493	1,842	2,182
Change in outstandings	253	535	742
Outstandings	6,292	6,827	7,569
Commodity credit corporation export guarantee financing account:			
Commitments	5,000	4,721	4,506
New guaranteed loans	2,733	4,721	4,506
Change in outstandings	–216	471	–255
Outstandings	4,332	4,803	4,548
Commodity credit corporation guaranteed loans liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–16	....	....
Outstandings	....	....	....
Natural Resources Conservation Service			
Agricultural resource conservation demonstration guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	....	....	....
Outstandings	24	24	24
Rural Utilities Service			
Rural communication development fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	....	–1	....
Outstandings	5	4	4
Rural development insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–148	–89	–54
Outstandings	227	138	84
Rural water and waste water disposal guaranteed loans financing account:			
Commitments	15	75	75
New guaranteed loans	4	20	69
Change in outstandings	4	19	67
Outstandings	11	30	97
Rural electrification and telecommunications liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–24	–20	–20
Outstandings	618	598	578
Rural Housing Service			
Rural housing insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–3	–3	–3
Outstandings	27	24	21
Rural housing insurance fund guaranteed loan financing account:			
Commitments	2,862	3,075	3,400
New guaranteed loans	2,416	2,927	3,125
Change in outstandings	2,167	2,585	2,669
Outstandings	7,206	9,791	12,460

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Rural community facility guaranteed loans financing account:			
Commitments	65	210	210
New guaranteed loans	47	81	131
Change in outstandings	34	74	119
Outstandings	155	229	348
Rural Business—Cooperative Service			
Rural business and industry guaranteed loans financing account:			
Commitments	1,171	1,096	1,000
New guaranteed loans	801	1,019	1,019
Change in outstandings	597	879	841
Outstandings	1,855	2,734	3,575
Department of Commerce			
Economic Development Administration			
Economic development revolving fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–2	–1	–1
Outstandings	13	12	11
National Oceanic and Atmospheric Administration			
Fisheries finance, guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	8	....	....
Change in outstandings	–14	–22	–22
Outstandings	80	58	36
Federal ship financing fund, fishing vessels liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–17	–12	–10
Outstandings	68	56	46
Department of Defense—Military			
Operation and Maintenance			
Defense export loan guarantee financing account:			
Commitments	....	25	....
New guaranteed loans	15	11	19
Change in outstandings	15	7	15
Outstandings	15	22	37
Procurement			
Arms Initiative Guaranteed Loan Financing Account:			
Commitments	10	21	18
New guaranteed loans	10	21	18
Change in outstandings	10	21	16
Outstandings	10	31	47
Family Housing			
Department of Defense, Family Housing Improvement, Guaranteed Loan Financing Account:			
Commitments	....	177	697
New guaranteed loans	....	....	....
Change in outstandings	....	....	....
Outstandings	....	....	....
Department of Education			
Office of Postsecondary Education			
Federal family education loan liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–7,465	–5,367	–4,075
Outstandings	16,118	10,751	6,676

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Federal family education loan program, financing account:			
Commitments	26,820	26,182	27,780
New guaranteed loans	21,966	23,170	24,550
Change in outstandings	9,016	10,685	9,007
Outstandings	84,402	95,087	104,094
Historically black college and university capital financing, guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	....	1	7
Change in outstandings	....	1	7
Outstandings	....	1	8
Department of Health and Human Services			
Health Resources and Services Administration			
Health education assistance loans financing account:			
Commitments	85	....	....
New guaranteed loans	85	....	....
Change in outstandings	68	–16	–21
Outstandings	1,562	1,546	1,525
Health education assistance loans liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–66	–91	–96
Outstandings	1,412	1,321	1,225
Health center guaranteed loan financing account:			
Commitments	9	100	51
New guaranteed loans	9	73	48
Change in outstandings	9	73	48
Outstandings	9	82	130
Medical facilities guarantee and loan fund:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–60	–40	–30
Outstandings	82	42	12
Department of Housing and Urban Development			
Public and Indian Housing Programs			
Low-rent public housing—loans and other expenses:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–279	–279	–279
Outstandings	3,307	3,028	2,749
Indian housing loan guarantee fund financing account:			
Commitments	22	69	72
New guaranteed loans	24	34	40
Change in outstandings	21	34	40
Outstandings	38	72	112
Title VI Indian Federal guarantees financing account:			
Commitments	....	54	45
New guaranteed loans	....	....	....
Change in outstandings	....	....	....
Outstandings	....	....	....
Community Planning and Development			
Revolving fund (liquidating programs):			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	....	–1	–1
Outstandings	2	1	....
Community development loan guarantees financing account:			
Commitments	382	1,261	1,261
New guaranteed loans	547	1,000	1,000
Change in outstandings	415	800	800
Outstandings	1,190	1,990	2,790

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Community development loan guarantees liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–33	–30	–25
Outstandings	165	135	110
America's private investment companies financing account:			
Commitments	....	....	1,000
New guaranteed loans	....	....	730
Change in outstandings	....	....	730
Outstandings	....	....	730
Housing Programs			
FHA-Mutual mortgage and cooperative housing insurance funds liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–16,725	–5,150	–4,579
Outstandings	71,030	65,880	61,301
FHA-General and special risk insurance funds liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–5,815	–1,787	–2,536
Outstandings	36,590	34,803	32,267
FHA-General and special risk guaranteed loan financing account:			
Commitments	15,513	18,100	16,507
New guaranteed loans	15,074	17,153	16,118
Change in outstandings	7,034	12,151	10,568
Outstandings	52,697	64,848	75,416
FHA-Loan guarantee recovery fund—financing account:			
Commitments	2	8	....
New guaranteed loans	1	5	4
Change in outstandings	1	5	4
Outstandings	1	6	10
FHA-Mutual mortgage insurance guaranteed loan financing account:			
Commitments	100,245	96,218	112,873
New guaranteed loans	90,518	86,398	96,162
Change in outstandings	36,559	62,908	63,739
Outstandings	309,309	372,217	435,956
Government National Mortgage Association			
Guarantees of mortgage-backed securities liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–434,033	–88,444	–6,954
Outstandings	96,009	7,565	611
Guarantees of mortgage-backed securities financing account:			
Commitments	130,000	150,000	200,000
New guaranteed loans	138,450	119,390	127,884
Change in outstandings	445,615	92,791	18,409
Outstandings	445,615	538,406	556,815
Department of the Interior			
Bureau of Indian Affairs			
Indian loan guaranty and insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–17	–13	–8
Outstandings	40	27	19
Indian guaranteed loan financing account:			
Commitments	35	60	60
New guaranteed loans	28	45	45
Change in outstandings	11	24	15
Outstandings	113	137	152

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Department of Transportation			
Maritime Administration			
Federal ship financing fund liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–150	–94	–58
Outstandings	397	303	245
Maritime guaranteed loan (Title XI) financing account:			
Commitments	686	120	120
New guaranteed loans	686	120	120
Change in outstandings	430	–146	–175
Outstandings	2,457	2,311	2,136
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans Housing Benefit Program Fund Liquidating Account:			
Commitments			
New guaranteed loans	9		
Change in outstandings	–488	–454	–379
Outstandings	23,408	22,954	22,575
Veterans Housing Benefit Program Fund Guaranteed Loan Financing Account:			
Commitments	39,862	32,635	31,237
New guaranteed loans	40,980	33,455	32,311
Change in outstandings	30,202	19,860	17,189
Outstandings	176,777	196,637	213,826
Miscellaneous veterans housing loans guaranteed loan financing account:			
Commitments			7
New guaranteed loans			7
Change in outstandings			7
Outstandings			7
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–387	–380	–373
Outstandings	5,304	4,924	4,551
Agency for International Development			
Loan guarantees to Israel financing account:			
Commitments			
New guaranteed loans	1,412		
Change in outstandings	1,412		
Outstandings	9,226	9,226	9,226
Development credit authority guaranteed loan financing account:			
Commitments		120	320
New guaranteed loans		31	95
Change in outstandings		31	95
Outstandings		31	126
Housing and other credit guaranty programs liquidating account:			
Commitments			
New guaranteed loans	19	20	10
Change in outstandings	–50	–34	–46
Outstandings	1,834	1,800	1,754
Private sector revolving fund liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–8		
Outstandings			

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
Microenterprise and small enterprise development guaranteed loan financing account:			
Commitments	160	191	200
New guaranteed loans	12	39	41
Change in outstandings	–1	18	17
Outstandings	31	49	66
Urban and environmental credit guaranteed loan financing account:			
Commitments	18	14	26
New guaranteed loans	64	107	35
Change in outstandings	64	107	35
Outstandings	407	514	549
Assistance for the New Independent States of the Former Soviet Union: Ukraine export credit insurance financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–81	–61	....
Outstandings	61	....	....
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–60	–53	–26
Outstandings	81	28	2
Overseas private investment corporation guaranteed loan financing account:			
Commitments	2,418	2,600	2,100
New guaranteed loans	760	950	1,000
Change in outstandings	632	550	500
Outstandings	2,613	3,163	3,663
Small Business Administration			
Pollution control equipment fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–19	–11	–11
Outstandings	57	46	35
Business guaranteed loan financing account:			
Commitments	10,970	14,770	16,471
New guaranteed loans	9,671	7,336	7,597
Change in outstandings	3,488	4,039	4,167
Outstandings	33,695	37,734	41,901
Business loan fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	1	1	1
Change in outstandings	–1,201	–698	–579
Outstandings	3,804	3,106	2,527
Other Independent Agencies			
Export-Import Bank of the United States			
Export-Import Bank of the United States liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–661	–493	–287
Outstandings	1,707	1,214	927
Export-Import Bank guaranteed loan financing account:			
Commitments	10,447	12,737	15,172
New guaranteed loans	10,102	12,229	11,802
Change in outstandings	329	1,782	405
Outstandings	20,072	21,854	22,259

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1998 Actual	Estimate	
		1999	2000
National Credit Union Administration			
Credit union share insurance fund:			
Commitments	1	1	....
New guaranteed loans	....	....	....
Change in outstandings	....	–1	....
Outstandings	1	....	....
Presidio Trust			
Presidio trust guaranteed loan financing account:			
Commitments	....	....	150
New guaranteed loans	....	....	150
Change in outstandings	....	....	150
Outstandings	....	....	150
Subtotal, Guaranteed loans (gross)			
Commitments	348,451	366,520	437,585
New guaranteed loans	337,945	312,199	330,826
Change in outstandings	70,129	106,446	109,286
Outstandings	1,423,337	1,529,783	1,639,069
Less, secondary guaranteed loans: [1]			
GNMA guarantees of FmHA/VA/FHA pools:			
Commitments	–130,000	–150,000	–200,000
New guaranteed loans	–138,450	–119,390	–127,884
Change in outstandings	–11,582	–4,347	–11,455
Outstandings	–541,624	–545,971	–557,426
Total, primary guaranteed loans:			
Commitments	218,451	216,520	237,585
New guaranteed loans	199,495	192,809	202,942
Change in outstandings	58,547	102,099	97,831
Outstandings	881,713	983,812	1,081,643

[1] Loans guaranteed by FHA, VA, or FmHA are included above. GNMA places a secondary guarantee on these loans, so they are deducted here to avoid double counting.

Table 8–10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]

(in millions of dollars)

Enterprise	1998 Actual	Estimate 1999	Estimate 2000
LENDING			
Student Loan Marketing Association:			
New transactions	8,310	8,295	8,766
Net change	–4,791	–3,420	–5,787
Outstandings	29,468	26,048	20,261
Federal National Mortgage Association:			
FNMA corporation accounts:			
New transactions	136,759	159,075	106,308
Net change	71,499	100,812	55,636
Outstandings	393,210	494,022	549,658
FNMA mortgage-backed securities:			
New transactions	275,533	346,794	204,271
Net change	60,509	98,275	58,480
Outstandings	627,451	725,726	784,206
Federal Home Loan Mortgage Corporation:			
FHLMC corporation accounts:			
New transactions	100,869	49,000	45,000
Net change	59,357	20,000	20,000
Outstandings	216,522	236,522	256,522
FHLMC participation certificates pools:			
New transactions	217,539	175,000	169,000
Net change	20,672	21,581	22,530
Outstandings	490,687	512,268	534,798
Farm Credit System:			
Bank for Cooperatives:			
New transactions	8,267	7,171	6,892
Net change	–192	17	102
Outstandings	1,835	1,852	1,954
Agricultural credit bank:			
New transactions	41,710	45,000	50,000
Net change	–185	874	897
Outstandings	14,776	15,650	16,547
Farm Credit Banks:			
New transactions	36,673	36,936	37,754
Net change	3,063	1,208	1,274
Outstandings	44,061	45,269	46,543
Federal Agricultural Mortgage Corporation:			
New transactions	349	436	545
Net change	234	292	366
Outstandings	1,048	1,340	1,706
Federal Home Loan Banks: [2]			
New transactions	952,121	952,121	952,121
Net change	63,819	63,819	63,819
Outstandings	245,647	309,466	373,285
Subtotal GSE lending (gross):			
New transactions	1,778,130	1,779,828	1,580,657
Net change	273,985	303,458	217,317
Outstandings	2,064,705	2,368,163	2,585,480
Less guaranteed loans purchased by:			
Student Loan Marketing Association: [3]			
Net change	–4,791	–3,420	–5,787
Outstandings	29,468	26,048	20,261
Federal National Mortgage Corporation:			
Net change	3,753	....	....
Outstandings	31,626	31,626	31,626
Other:			
Net change	–1,134	....	....
Outstandings	14,525	14,525	14,525
Total GSE lending (net):			
New transactions	1,778,130	1,779,828	1,580,657
Net change	276,157	306,878	223,104
Outstandings	1,989,086	2,295,564	2,519,068

Table 8–10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]—Continued

(in millions of dollars)

Enterprise	1998 Actual	Estimate 1999	Estimate 2000
BORROWING			
Student Loan Marketing Association:			
Net Change	–6,713	–4,990	–5,384
Outstandings	33,517	28,527	23,143
Federal National Mortgage Association:			
FNMA corporation accounts:			
Net Change	72,579	63,774	56,010
Outstandings	430,582	494,356	550,366
FNMA mortgage-backed securities:			
Net Change	60,509	98,275	58,480
Outstandings	627,451	725,726	784,206
Federal Home Loan Mortgage Corporation:			
FHLMC corporation accounts:			
Net Change	72,943	20,000	20,000
Outstandings	232,994	252,994	272,994
FHLMC participation certificates pools:			
Net Change	20,672	21,581	22,530
Outstandings	490,687	512,268	534,798
Farm Credit System:			
Bank for Cooperatives:			
Net Change	–241	–10	47
Outstandings	1,826	1,816	1,863
Agricultural credit bank:			
Net Change	–216	755	845
Outstandings	16,253	17,008	17,853
Farm Credit Banks:			
Net Change	4,126	1,047	1,556
Outstandings	47,714	48,761	50,327
Federal Agricultural Mortgage Corporation:			
Net Change	285	148	184
Outstandings	1,598	1,746	1,930
Federal Home Loan Banks:			
Net Change	51,717	61,761	62,221
Outstandings	336,262	398,023	460,244
Financing Corporation:			
Net Change	1	1	1
Outstandings	8,145	8,146	8,147
Resolution Funding Corporation:			
Net Change	–3	–2	–2
Outstandings	30,069	30,067	30,065
Subtotal GSE borrowing (gross):			
Net change	275,659	262,340	216,488
Outstandings	2,257,098	2,519,438	2,735,936
Less borrowing from other GSEs:			
Net Change	14,398	....	....
Outstandings	65,557	65,557	65,557
Less purchase of Federal debt securities:			
Net Change	–841	412	580
Outstandings	8,123	8,535	9,115
Less borrowing to purchase loans guaranteed by:			
Student Loan Marketing Association: [4]			
Net change	–4,791	–3,420	–5,787
Outstandings	29,468	26,048	20,261
Federal National Mortgage Corporation:			
Net change	3,753	....	....
Outstandings	31,626	31,626	31,626
Other:			
Net change	–1,134	....	....
Outstandings	14,525	14,525	14,525

Table 8–10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]—Continued

(in millions of dollars)

Enterprise	1998 Actual	Estimate	
		1999	2000
Total GSE borrowing (net):			
Net change	293,070	265,348	221,695
Outstandings	2,238,913	2,504,261	2,725,966

[1] The estimates of borrowing and lending were developed by the GSEs based on certain assumptions that they made. The estimates are subject to periodic review and revision and do not represent offficial GSE forecasts of future activity. The data for all years include programs of mortgage-backed securities. In cases where a GSE owns securities issued by the same GSE, including mortgage-backed securities, the borrowing and lending data for that GSE are adjusted to remove double-counting.

[2] The lending by the Federal Home Loans Banks measures their advances to member thrift and other financial institutions. In addition, their investment in private financial instruments at the end of 1998 was $135 billion, including federally guaranteed securities and GSE securities.

[3] The change in debt outstanding is due solely to the amortization of discounts and premiums. No sale or redemption of debt securities is estimates to occur in 1999 or 2000.

[4] All SLMA loans acquired are guaranteed by the Federal Government and therefore also counted as guaranteed loans.